ENDORSED BY DIRECTORATE,

Ion-Toni TEAU	Constantin VADUVA	Octavian LOHAN	Mircea - Toma MODRAN
Directorate Chairman	Directorate Member	Directorate Member	Directorate Member

N O T E

Regarding approval by the Shareholders' general assembly of the Consolidated financial statements of CNTEE Transelectrica SA for 2016 financial year

In accordance with the provisions of MFP Order 881/2012, beginning with 2012 financial year the trading companies whose securities are admitted for transaction on the a regulated market (the capital market) apply the International Financial Reporting Standards (IFRS) as they are adopted by the European Union (IFRS-UE) when they elaborate their stand-alone financial statements.

MFP Order 2844/2016 approving the Accounting Regulations compliant with the International Financial Reporting Standards provides in Section 4.1., article 21 - "Elaboration of consolidated annual financial statements" as follows:
"An entity, consolidating parent company (entity, Romanian legal person that has one or several subsidiaries and consolidates the group's financial statements), should execute consolidated financial statements and a consolidated administrators report according to IFRS provisions".

The consolidated financial statements of CNTEE Transelectrica SA have been elaborated according to the International Accounting Standard (IAS) 27 "Consolidated financial statements and accounting for investments in subsidiary companies".
A subsidiary company is one controlled by another entity, known as parent company as defined in IAS 27. In accordance with IAS 27, control is assumed when the parent company holds more than half of an entity's voting rights, besides when, in exceptional circumstances, it can be clearly proved such form of property does not provide control. Control is the authority to govern an entity's financial and operational policies with a view to get benefits from its activities.

CNTEE Transelectrica SA has consolidated the following subsidiary: SC Smart SA and SC Teletrans SA in the consolidated financial statements executed on 31 December 2016.

Subsidiary SC Formenerg SA and Subsidiary SC Icemenerg Service SA are considered insignificant in terms of consolidation, while Subsidiary SC Opcom SA cannot be consolidated because by its core activity it holds an independent position on the electricity market.

The intra-group balances and transactions, as well as internal dividends are removed when elaborating the consolidated financial statements.

Compania Naţională de Transport al Energiei Electrice
Transelectrica SA - Strada Olteni nr 2-4, cod poştal 030786, sector 3, Bucureşti
România, Nr. Înregistrare Oficiul Registrului Comerţului J40/8060/2000, Cod unic de înregistrare 13328043, Telefon +4021 303 56 11, Fax +4021 303 56 10
www.transelectrica.ro

Taking into account the above, in accordance with article 14, par (1) let a) from the Articles of Association updated by AGEA decision 2/23.03.2015, we submit for the approval of the Shareholders' general assembly the Consolidated financial statements of CNTEE Transelectrica SA for the 2016 financial exercise, as follows:

- Financial position statement;
- Profit and loss account, and the global result statement;
- Statement of changes in equities;
- Cash flow statement;
- Explanatory notes to the annual financial statements.

Cristina Stoian	Veronica Crisu
Director, DSFT	Manager, Accounting Depart.

ENDORSED,
Radu Cernov
Director, DJC

Deloitte.

Deloitte Audit S.R.L.
Şos Nicolae Titulescu nr. 4-8
Intrarea de est,
Etajul 2 zona Deloitte şi etajul 3
Sector 1, 011141, Bucureşti
România

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

1. We have audited the consolidated financial statements of C.N.T.E.E. Transelectrica S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

2. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

3. We conducted our audit in accordance with the Auditing Standards adopted by the Chamber of Auditors of Romania, which are International Standards on Auditing (ISAs). Our responsibilities under this law and regulation are further described in the Auditor's "*Responsibilities for the Audit of the Consolidated Financial Statements*" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

4. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

   We have determined that there are no key audit matters to communicate in our report

Deloitte.

Reporting requirements concerning the consolidated administrators' report

5. The administrators are responsible for the preparation and presentation of the consolidated administrators' report in accordance with the requirements of the Ministry of Public Finance Order 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union, article no. 28, which does not contain material misstatements and for such internal control as management determines is necessary to enable the preparation of administrator's report that is free from material misstatement, whether due to fraud or error.

   The consolidated administrators' report is not part of the consolidated financial statements.

   Our opinion on the consolidated financial statements does not cover the administrators' report.

   In connection with our audit of the consolidated financial statements, we have read the administrators' report accompanying the consolidated financial statements and we report as follows:

   a) in the consolidated administrators' report, we have not identified information which is not consistent, in all material respects, with the information presented in the consolidated financial statements attached;

   b) the consolidated administrators' report identified above contains, in all material respects, the required information according to the provisions of Ministry of Public Finance Order no. 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union, article no. 28 (accounting regulations regarding annual standalone financial statements and annual consolidated financial statements);

   c) based on our knowledge and understanding concerning the Group and its environment gained during the audit on the consolidated financial statements prepared as at December 31, 2016, we have not identified information included in the consolidated administrators' report that contains a material misstatement of fact.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

6. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted 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..

   In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

   Those charged with governance are responsible for overseeing the Group's financial reporting process.

Deloitte.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

7. Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

8. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

   - Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

   - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

   - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

   - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

   - Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

   - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

9. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

10. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

11. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

    The engagement partner on the audit resulting in this independent auditor's report is Zeno Caprariu.

Zeno Caprariu, Audit Director

For signature, please refer to the original Romanian version.

Registered with the Romanian Chamber of Financial Auditors under no. 2693/18.11.2001

On behalf of:

DELOITTE AUDIT S.R.L.

Registered with the Romanian Chamber of Financial Auditors under no. 25/25.06.2001

Bucharest, Romania
March 21, 2017

CN Transelectrica S.A.

Company managed in a dualist system

Consolidated Financial Statements
as at and for the year ended
December 31, 2016

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

(free translation)

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	**5**	3,254,345	3,426,423
Intangible assets	**6**	14,775	35,151
Other investments		32,636	10,541
Long-term receivables	**8**	9,775	
Total non-current assets		**3,311,531**	**3,472,116**
Current assets			
Inventories	**7**	45,475	46,194
Trade and other receivables	**8**	864,332	729,338
Other financial assets	**9**	135,090	70,085
Cash and cash equivalents	**10**	960,489	1,002,829
Total current assets		**2,005,386**	**1,848,495**
Total assets		**5,316,917**	**5,320,611**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		733,031	733,031
Share premium		49,843	49,843
Legal reserves		116,552	99,599
Other reserves		57,627	56,368
Revaluation reserves		458,184	512,781
Retained earnings		1,714,462	1,608,506
Equity attributable to the owners of the Group	**11**	**3,129,699**	**3,060,128**
Non-controlling interests		5,484	11,645
Total equity		**3,135,183**	**3,071,773**
Non-current liabilities			
Deferred income	**12**	433,692	467,949
Borrowings	**13**	501,930	634,590
Deferred tax liability	**16**	32,565	37,929
Employee benefits obligations	**14**	58,050	46,159
Total non-current liabilities		**1,026,237**	**1,186,627**

	Note	31 December 2016	31 December 2015
Current liabilities			
Trade and other liabilities	**15**	877,058	779,506
Provisions	**15**	55,274	43,416
Other tax and social security liabilities	**18**	12,291	8,694
Borrowings	**13**	155,548	180,694
Deferred income	**12**	38,025	33,408
Income tax payable		17,301	16,493
Total current liabilities		**1,155,497**	**1,062,211**
Total liabilities		**2,181,734**	**2,248,838**
Total shareholders' equity and liabilities		**5,316,917**	**5,320,611**

The accompanying consolidated financial statements were approved by the management on March 21, 2017 and signed on its behalf by:

Management Board,

Ion-Toni TEAU	**Constantin VĂDUVA**	**Octavian LOHAN**	**Mircea - Toma MODRAN**
President of Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Cristina STOIAN	**Veronica CRISU**
Head of Financial Strategy and Treasury Directorate	Head of Accounting Department

	Note	2016	2015
Revenues			
Transmission revenues		1,146,257	1,284,808
System services revenues		716,340	731,205
Balancing market revenues		814,080	923,035
Other revenues		61,411	46,730
Total revenues	**19**	**2,738,088**	**2,985,779**
Operating expenses			
System operating expenses	**20**	(230,757)	(231,851)
Balancing market expenses	**20**	(814,080)	(923,035)
Technological system services expenses	**20**	(561,027)	(637,653)
Depreciation and amortization		(331,433)	(327,336)
Personnel expenses		(271,938)	(245,686)
Repairs and maintenance expenses		(28,913)	(19,350)
Consumables	**7**	(27,741)	(36,916)
Other operating expenses	**21**	(130,483)	(122,847)
Total operating expenses		**(2,396,372)**	**(2,544,674)**
Operating profit		**341,716**	**441,104**
Finance income		28,676	43,110
Finance cost		(48,520)	(67,310)
Net finance result	**22**	**(19,844)**	**(24,200)**
Profit before income tax		**321,872**	**416,904**
Income tax expense	**16**	(62,878)	(70,799)
Profit for the year from continuing operations		**258,994**	**346,105**
			-
PROFIT FOR THE YEAR			
Attributable to:			
Owners of the Group		265,155	348,356
Non-controlling interests		(6,161)	(2,251)
Basic and diluted earnings per share (lei/share)	**17**	**3.53**	**4,72**

The accompanying consolidated financial statements were approved by the management on March 21, 2017 and signed on its behalf by:

Management Board,

Ion-Toni TEAU	**Constantin VĂDUVA**	**Octavian LOHAN**	**Mircea - Toma MODRAN**
President of Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Cristina STOIAN	**Veronica CRISU**
Head of Financial Strategy and Treasury Directorate	Head of Accounting Department

	Note	2016	2015
Profit for the year		**258,994**	**346,105**
Other comprehensive income			
Elements that will not be reclassified in the income statement, of which:			
- Effect of taxation on revaluation reserve		-	(16,661)
- Surplus from the revaluation of tangible assets		-	86,595
- Actuarial losses on defined benefit plans	**14**	(3,318)	(11,965)
Other comprehensive income		**(3,318)**	**57,969**
Total comprehensive income for the year		**255,676**	**404,074**
Attributable to:			
Owners of the Group		265,155	348,356
Non-controlling interests		(6,161)	(2,251)

The accompanying consolidated financial statements were approved by the management on March 21, 2017 and signed on its behalf by:

Management Board,

Ion-Toni TEAU	**Constantin VĂDUVA**	**Octavian LOHAN**	**Mircea - Toma MODRAN**
President of Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Cristina STOIAN	**Veronica CRISU**
Head of Financial Strategy and Treasury Directorate	Head of Accounting Department

	Share Capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Attributable to the owners of the group	Non-controlling interests	Total
Balance as at 1 January 2016	**733,031**	**49,843**	**99,599**	**512,781**	**56,368**	**1,608,506**	**3,060,128**	**11,645**	**3,071,773**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	258,994	258,994	-	258,994
Other comprehensive income	-	-	-	-	-	-	-	-	-
Defined benefit plan actuarial loss	-	-	-	-	-	(3,318)	(3,318)	-	(3,318)
Surplus from revaluation of tangible assets	-	-	-	-	-	-	-	-	-
Deferred tax liability generated by revaluation reserve	-	-	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(3,318)**	**(3,318)**	**-**	**(3,318)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**255,676**	**255,676**	**-**	**255,676**
	-	-	16,953	-	-	(16,953)	-	-	-
Legal reserve	-	-	-	(54,597)	-	54,597	-	-	-
Transfer of revaluation reserve to retained earnings	-	-	-	-	-	-	-	-	-
Fixed assets obtained through public funds	-	-	-	-	-	-	-	-	-
Adjustments of fixed assets obtained through public funds	-	-	-	-	-	6,161	6,161	(6,161)	-
Adjustment for inflation of share capital to cover losses resulted from applying IAS 29	-	-	-	-	-	743	743	-	743
Non-controlling interests arising from decrease of ownership in SMART SA	**-**	**-**	**16,953**	**(54,597)**	**-**	**44,548**	**6,904**	**(6,161)**	**743**
Total other elements									
Contributions by and distributions to owners									
	-	-	-	-	1,259	-	1,259	-	1,259
Dividends distributed	-	-	-	-	-	(194,268)	(194,268)	-	(194,268)
Total transactions with owners	**-**	**-**	**-**	**-**	**1,259**	**(194,268)**	**(194,268)**	**-**	**(194,268)**
Balance as at 31 December 2016	**733,031**	**49,843**	**116,552**	**458,184**	**57,627**	**1,714,462**	**3,129,699**	**5,484**	**3,135,183**

The accompanying consolidated financial statements were approved by the management on March 21, 2017 and signed on its behalf by:

Management Board,

Ion-Toni TEAU	**Constantin VĂDUVA**	**Octavian LOHAN**	**Mircea - Toma MODRAN**
President of Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Cristina STOIAN
Head of Financial Strategy and Treasury Directorate

Veronica CRISU
Head of Accounting Department

	Share Capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Attributable to the owners of the group	Non-controlling interests	Total
Balance as at 1 January 2015	**733,031**	**49,843**	**78,616**	**501,477**	**23,712**	**1,448,646**	**2,835,325**	**5,210**	**2,840,535**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	346,105	346,105	-	346,105
Other comprehensive income									
Defined benefit plan actuarial loss	-	-	-	-	-	(11,965)	(11,965)	-	(11,965)
Surplus from revaluation of tangible assets	-	-	-	86,595	-	-	86,595	-	86,595
Deferred tax liability generated by revaluation reserve	-	-	-	(16,661)	-	-	(16,661)	-	(16,661)
Total other comprehensive income	**-**	**-**	**-**	**69,934**	**-**	**(11,965)**	**57,969**	**-**	**57,969**
Total comprehensive income for the year	**-**	**-**	**-**	**69,934**	**-**	**334,140**	**404,074**	**-**	**404,074**
Legal reserve	-	-	20,983	-	-	(20,983)	-	-	-
Transfer of revaluation reserve to retained earnings	-	-	-	(49,944)	-	49,944	-	-	-
Fixed assets obtained through public funds	-	-	-	-	32,656	-	32,656	-	32,656
Adjustments of fixed assets obtained through public funds	-	-	-	-	-	-	-	-	-
Adjustment for inflation of share capital to cover losses resulted from applying IAS 29	-	-	-	-	-	-	-	-	-
Non-controlling interests arising from decrease of ownership in SMART SA	-	-	-	(8,686)	-	2,251	(6,435)	6,435	-
Total other elements	**-**	**-**	**20,923**	**(58,630)**	**32,656**	**31,211**	**26,221**	**6,435**	**32.656**
Contributions by and distributions to owners	-	-	-	-	-	-	-	-	-
Dividends distributed	-	-	-	-	-	(205,491)	(205,491)	-	(205,491)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(205,491)**	**(205,491)**	**-**	**(205,491)**
Balance as at 31 December 2015	**733,031**	**49,843**	**99,599**	**512,781**	**56,368**	**1,608,506**	**3,060,129**	**11,645**	**3,071,774**

The accompanying consolidated financial statements were approved by the management on March 21, 2017 and signed on its behalf by:

Management Board,

Ion-Toni TEAU	**Constantin VĂDUVA**	**Octavian LOHAN**	**Mircea - Toma MODRAN**
President of Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Cristina STOIAN	**Veronica CRISU**
Head of Financial Strategy and Treasury Directorate	Head of Accounting Department

Cash flows from operating activities	**2016**	**2015**
Profit for the year	**258,994**	**346,105**
Adjustments for:		
Income tax expense	62,878	70,799
Depreciation and amortization	331,433	327,336
Increase in allowances for doubtful debts	32,739	33,616
Decrease in allowances for doubtful debts	(11,324)	(26,650)
Loss from disposal of intangible assets, net	273	1,119
Adjustments for stocks provisions depreciation	411	2,338
Adjustment for tangible assets cost	18,805	22,467
Increase in provisions	19,100	15,264
Interest expense, interest income and unrealised foreign exchange gains	19,844	19,057
	733,152	**811,451**
Changes in:		
Trade and other receivables	(156,359)	327,728
Inventories	308	345
Trade and other liabilities	51,861	(187,776)
Other tax and social security liabilities	3,597	(1,682)
Deferred income	(29,640)	(57,801)
Cash generated from operating activities	**602,919**	**892,265**
Interest paid	(25,390)	(31,011)
Income tax paid	(66,538)	(56,863)
Net cash from operating activities	**510,992**	**804,391**
Cash flows used in investing activities		
Purchase of property, plant and equipment and of intangible assets	(142,730)	(243,910)
Other financial assets	(65,005)	78,715
Dividends received	1,219	1,905
Interest received	5,880	11,729
Net cash used in investing activities	**(200,636)**	**(151,561)**
Cash flows used in financing activities		
Proceeds from long term borrowings		-
Repayments of long term borrowings	(162,486)	(196,387)
Repayments of short term borrowings	4,133	7,061
Dividends paid	(194,342)	(205,307)
Net cash used in financing activities	**(352,695)**	**(394,633)**

	2016	2015
Cash flows from operating activities		
Net increase in cash and cash equivalents	(42,340)	258,196
Cash and cash equivalents as at 1 January (see Note 9)	**1,002,829**	**744,633**
Cash and cash equivalents at the end of the period (see Note 9)	**960,489**	**1,002,829**

The accompanying consolidated financial statements were approved by the management on March 21, 2017 and signed on its behalf by:

Management Board,

Ion-Toni TEAU	**Constantin VĂDUVA**	**Octavian LOHAN**	**Mircea - Toma MODRAN**
President of Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Cristina STOIAN	**Veronica CRISU**
Head of Financial Strategy and Treasury Directorate	Head of Accounting Department

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION

The main activity of CNTEE Transelectrica SA ("the Company") and its subsidiaries (collectively with the Company, "the Group") is: electricity transmission, system services, operator of the balancing market, administrator of the bonus support scheme, other related activities. Such activities are carried out in accordance with the provisions of operation license no. 161/2000 issued by ANRE, revised by ANRE Decision no. 270/04.02.2015, the General Conditions associated to the license approved by ANRE Order no. 104/2014 and the final certification of the Company as transmission and system operator of the National Power System according to the ownership unbundling model.

The address of its registered office is Bd. General Gheorghe Magheru nr. 33, Bucharest, sector 1. Currently, the Company's headquarters is located at Str. Olteni nr. 2 – 4, sector 3, Bucharest.

The Group's consolidated financial statements as at December 31, 2016 prepared in accordance with International Financial Reporting Standards adopted by the European Union are available at the Company's working point located at Str. Olteni nr. 2 – 4, sector 3, Bucharest.

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

In accordance with the resolution of the Extraordinary General Meeting of Shareholders dated July 18, 2012, the Company adopted the dualist management system replacing the monistic management system, in order to ensure the clear separation between management and control. Thus, the Company is managed by a Management Board under the supervision of a Supervisory Board.

Incorporation of the Company

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

As described in Note 11, as at December 31, 2016 December 31, 2015, the shareholders of the Company are: the Romanian State through the Ministry of Economy, Commerce and Tourism, which holds 43,020,309 shares (58.688%), other legal entity shareholders which hold 25,797,725 shares (35.19%), and other natural person shareholders which hold 4,485,108 shares (6.12%).

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

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

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

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

The mission of the Group

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

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION

Other information relating to the Group's activity

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

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

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

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

The Company's credit rating is being monitored by rating agency Moody's Investors Service. The rating refers to the general credit profile of Transelectrica, and there are no credit instruments that the Company has issued and are rated separately. The current credit rating is Ba1 stable perspective. In 2016, the rating changed from Ba2.

Regulatory environment

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

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

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

The operating activity of the Company has been carried out according to License no. 161/2000 for electricity transmission and provisions of system services issued by ANRE, valid until 2025, revised by ANRE Decision no. 270/04.02.2015 and the General Conditions associated to the license approved by ANRE Order no. 104/2014, as subsequently amended and supplemented.

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

- the regulatory framework is relatively new and constantly prone to changes, which may affect the Company's performances;
- ANRE decisions regarding future tariffs may affect the Company's activity;
- The volume risk, namely the decrease of amount of tariff energy that may adversely affect the Company's financial standing. Starting from 2017, according to the ANRE Decision, a simulation of two-tier tariffs will be performed, by inserting a tariff for capacity reservation (the tariff – fixed – for energy) additional to the tariff for the energy distributed in the grid (the tariff – variable – for energy). The application of two-tier tariffs aims at better reflecting the costs of use of the electricity transmission grid (by applying the fixed tariff), streamlining investments in the electricity transmission grid and protecting the revenues of the transport operator through the stability offered by the fixed tariff.

Final certification of Transelectrica as TSO of the NPS, according to the ownership unbundling model

In accordance with the provisions of Law no. 123/2012 regarding electricity and natural gas, with the subsequent amendments, the Romanian Energy Regulatory Authority (ANRE) approved by Order no. 164/07.12.2015 the certification of the Company as transmission and system operator of the National Power System according to the ownership unbundling model.

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

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

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION

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

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

Tariffs for electricity transmission and system service

Electricity transmission is a general interest activity in the field of electricity, authorized and monitored by a public authority (public service), in the form of natural monopoly. The tariffs charged by the Company for transmission and system services are established and approved by ANRE (see Note 19).

Regulated assets base ("RAB")

The transmission tariff is set, among others, based on the regulated asset base. The regulated asset base includes the carrying amount of property, plant and equipment and intangible assets which correspond to the private patrimony of the Company and the carrying amount of the State's public patrimony assets that were financed through the Company's sources, recognized by ANRE and used in providing the electricity transmission service.

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

The current regulatory period lasts five years (July 1, 2014 – June 30, 2019), and comprises five tariff years (the tariff year begins on July 1 and lasts for 12 months). Thus, 2016 was the year of transition from the second tariff year to the third tariff year within the current regulatory period (the second tariff year ended June 30, 2016, the third tariff year began July 1, 2016).

The regulated return on assets in 2016 and 2015 for the electricity transmission activity is 7.70%, a value which is determined by ANRE for the current regulatory period.

Local and international stock exchange indexes

Starting from 29.08.2006, CNTEE Transelectrica SA shares are traded on the regulated market managed by the BSE, in category I under the symbol TEL. The Transelectrica shares are part of BET index (which reflects the evolution of the 10 most traded companies on the BSE Regulated Market, excluding financial investment companies (SIFs)), with a share of 11% as at December 31, 2016 (December 31, 2015: 3,66%), at a stock exchange capitalization of RON 2,140,451,746 as at December 31, 2016 (December 31, 2015: RON 2,136,786,589).

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

Group's revenues

The main revenue generating activities for the Group are:

- the electricity transmission services;
- system services (the technical operational management of the NPS);
- balancing market operator.

Electricity transmission service

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

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

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION

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

System services

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

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

- tariff for system services; of which:
- tariff for functional system services.

Technological system services are purchased from energy producers at the request of the Company under a procedure regulated by ANRE for maintaining the operational safety of the NPS as well as the quality of electricity transmitted at the parameters required by the legislation in force. The Company re-invoices the entire amount of system services purchased from producers (except for the active energy component which covers the ETG losses) to electricity suppliers licensed by ANRE which benefit of such services in the end.

Functional system services refer to the dispatch services that the Company provides and consist in planning and operationally managing the NPS, as well as the other activities of the Company with a view to balancing production against consumption in real time, in order to cover safely the electricity consumption at minimum costs and by maintaining the safety operational level of the NPS.

Balancing market operator

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

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

High efficiency cogeneration

Starting with April 1, 2011, the Company is the administrator of the support scheme for high efficiency cogeneration. The 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 easy access on the market 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, so as to encourage new investments in cogeneration, as well as the replacement or refurbishment of existing facilities.

Government Resolution 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 high-efficiency cogeneration production costs and sale prices. ANRE has calculated a bonus, which is a sum per megawatt hour ("MWh") of electricity produced and will be applicable to the electricity produced by the plant and sold on the market. The beneficiaries of the bonus are the producers that meet certain qualification criteria for the scheme and are established by ANRE.

According to provisions of article 14 of Government Resolution no. 1215/2009, the Company is designated as being responsible for the administration of the support scheme. The main tasks of the Company as the administrator of the support scheme are to collect the contribution from the suppliers of the electricity consumers in a bank account distinct from the core activity and by the payment of the bonus to the producers of electricity and heat in high-efficiency cogeneration; to conclude contracts with the contribution collectors and with the producers that will be the beneficiaries of the scheme; to verify the total value of the contribution collected; to issue invoices to suppliers; to refund the contribution to the suppliers for the energy imported and produced in cogeneration in other member states; to monitor and report to ANRE the way of administration of the support scheme; to pay the bonus to energy producers beneficiaries of the scheme; to pay late penalties to the producers for not paying the bonus on the due date.

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION

The Company acts as an agent of the State in collecting the cogeneration contribution on a monthly basis and paying the bonus on a monthly basis. Under such circumstances, the operations associated to the support scheme do no influence the income and expense accounts, except for the own administration costs recognized by ANRE to run the support scheme, which are self-invoiced.

On 08.12.2016, Government Resolution no. 925 adopted the amendment and supplementation of GR no. 1215/2009 laying down the required criteria and conditions for implementing the bonus support scheme for promoting high-efficiency cogeneration based on the demand for useful thermal energy. The main amendments refer to:
- to receive the bonus, produces are requested not to register liabilities to the administrator of the support scheme or conclude liability and receivable compensation conventions;
- the over-compensation is recovered according to the national legislation and the legislation of the European Union in the field of State aid;
- the undue over-compensation/bonus remaining to be paid by producers, for which all the legal actions have been taken, will be recovered by including the amount in the cogeneration contribution, according to the methodology issued by ANRE;
- the ANRE decisions regarding the amount of the over-compensation and/or the undue bonus are mandatory for producers and are enforced for recovering the amount further to the decision of the scheme administrator in accordance with the legislation in the field of State aid;
- the financial closing of the support scheme is made in the first semester of 2024, according to the regulations drawn up by ANRE.

Price coupling of electricity markets

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

As regards the internal regulatory framework, the roles and responsibilities of the operators involved, i.e., the Company and SC OPCOM SA, and the operations carried out within market coupling are provided in the Regulation for the Organization and Operation of the Day Ahead Electricity Market by observing the price coupling mechanism of markets and amending the legislation that regulates the day ahead electricity market, approved by ANRE Order no. 82/2014 (the Regulation).

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

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

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

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

CNTEE Transelectrica SA, as TSO, transfers electricity, both physically, and commercially, to the neighboring TSO (MAVIR-Hungary) and manages revenues flowing from congestions on such interconnection (Art. 139 of ANRE Order no. 82/2014), and in relation to SC OPCOM SA, is Implicit Participant on the DAM.

As Transfer Agent and Implicit Participant, the Company has the commercial task of settling the electricity traded between SC OPCOM SA and MAVIR.

Thus, within the price coupling mechanism of regional markets, the Company:

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

Revenues flowing from congestions are divided on a monthly basis between transmission and system operators, and foreign exchange differences are withheld or covered by TSOs, as applicable.

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

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements ("financial statements") have been prepared in accordance with Ministry of Public Finance Order no. 2844/2016 for the approval of the Accounting Regulations compliant with International Financial Reporting Standards ("MoPFO no. 2844/2016"). Within the meaning of Order no. 2844/2016, International Financial Reporting Standards mean the standards adopted according to the procedure provided by Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ("EU IFRS").

The Group applies International Financial Reporting Standards as endorsed by the European Union upon the preparation of the separate financial statements for 2016 in accordance with MoPFO no. 881/2012 as subsequently amended and supplemented.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of consolidated financial statements in accordance with EU IFRS requires management to use professional judgment, estimates and assumptions that affect the application of accounting policies and the recognized value of assets, liabilities, income and expenses, assumptions regarding fair value (see Note 4) provisions and contingencies (see Note 24), the recognition of non-refundable funds to be received (see Note 12), the provision for impairment of receivables (see Note 8), the liabilities related to cash settled share-based payment transaction (Note 26) and the liabilities for defined benefit plans (Note 14).

Actual results may be different from these estimates. Estimates and underlying assumptions are revised on an ongoing basis. Revisions to accounting estimates are recognized 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 12 – the estimate of the Group's management is that there is a reasonable assurance that the conditions regarding non-refundable funds will be fulfilled and the funds will be received;
- Note 14 – measurement of the liabilities for defined benefit obligations;
- Note 24 - recognition and measurement of provisions, commitments and contingencies, key assumptions regarding the probability and magnitude of an outflow of resources;
- Note 26 - measurement of the liabilities related to cash settled share-based payment transaction.

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

The Group (operator) concluded in 2004 a service concession agreement with the Ministry of Economy (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 (b)). 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 IFRS 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 of other IFRS dealing with similar issues.

2. BASIS OF PREPARATION (continued)

In determining if IFRIC 12 is applicable, the Group considered whether the following features of a public-private service concession agreement are to be applied to the concession agreement it had entered into with ME, as at the date at which IFRIC 12 is required to be adopted:

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

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

- the services rendered by the Group are regulated by ANRE, therefore the grantor – the competent ministry – does not control or regulate the type of services that the Group must supply;
- at the end of the contractual period, the residual interest in infrastructure is approximately nil, and most of the goods belonging to the State public domain are completely depreciated;
- at present, there are no similar contracts, the Group holds the monopoly in electricity transmission.

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

3. ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and were consistently applied by all of the Group’s entities, except for those aspects disclosed in Note 3 letter (x) which discloses the changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The group has control over an entity when it is exposed to, or is entitled to variable gains resulting from its involvement in the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(ii) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Property, plant and equipment

Owned assets

Property, plant and equipment, except for 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 assets purchased prior to December 31, 2003, which include allowances due to hyperinflation, less impairment losses. The cost of assets built by the Company includes cost of materials, direct salaries, initial estimate, where applicable, of costs with dismantling and relocating items and restoring the site, plus a share of incidental costs.

Recognition

Property, plant and equipment is valued initially at historical cost, less accumulated depreciation and accumulated impairment.

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

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

Impairment allowances for the idle or obsolete tangible assets are recorded in the consolidated financial statements, as they are identified.

Subsequent expenditure

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

3. ACCOUNTING POLICIES (continued)

(b) Property, plant and equipment (continued)

Depreciation

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

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

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

Revaluation

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

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

(c) Public patrimony assets

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

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

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

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

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

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

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

3. ACCOUNTING POLICIES (continued)

(c) Public patrimony assets (continued)

Taking into account Government Resolution no. 1009/2012 and Government Resolution no. 984/2012 through which was approved the modification of Appendix no. 7 to Government Resolution no. 1705/2006 approving the centralized stock take of the assets from the public patrimony that were transferred to the Company under concession, and following the inventory procedure of the assets part of the public patrimony in 2012 and the revaluation/valuation of these goods, on 14.02.2013, Addendum no. 7 to Concession contract no. 1/29.06.2004 was signed with the Ministry of Economy.

Government Resolution no. 1032 from December 11, 2013, published in Official Journal no. 22 from January 13, 2014, approved the amendment and the supplementation of Appendix no. 7 to Government Resolution no. 1705/2006 approving the centralized stock take of the assets from the public patrimony, following the 2012 stock take of the assets from the public patrimony.

The main terms of the concession contract are as follows:

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

The amount that the Group paid under the concession contract for the period January 1 – December 31, 2013 is significantly less than the amount of the depreciation that the Group would have recorded on such assets if the concession contract had not been signed. However, the Group has not recorded any amount related to the potential benefit resulting from the signing of the concession contract because the Company is unable to determine the amount that a third party would pay for the use of the assets in an arm's length transaction.

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

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

(d) Intangible assets

The intangible assets of the Group are stated at cost less any accumulated amortization and accumulated impairment losses. The amortization is recognized in the income statement on a straight-line basis over the estimated useful life of the intangible asset. Intangible assets consist mainly of intangibles in progress and customized software, which are amortized on a straight-line basis over 3 years.

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

Subsequent expenditure

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

3. ACCOUNTING POLICIES (continued)

(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, realized or unrealized, are included in the income statement for that year.

The exchange rates at December 31, 2016 and December 31, 2015 are as follows:

Currency	December 31, 2016	December 31, 2015
1 EUR	4.5411	4.5245
1 USD	4.3033	4.1477
100 JPY	3.6834	3.4453

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

(f) Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized 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 reorganization, and default or delinquency in payments (over 180 days) are considered indications that the trade receivable might be impaired.

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

Inventories consist of:

- consumables, raw materials, spare parts that do not meet the definition of PPE, and other consumables that are to be used during the ordinary basic activity of the Company;

- security and intervention stock needed for fast repairs of the failures of the network in order to assure the safe functioning of NPS. These materials are recorded as inventories when purchased and then expensed when consumed or capitalized, as appropriate.

Inventories are measured at the lower of cost and net realizable value. The cost of inventories consumed is based on the first-in first-out method, and includes expenditure with acquisition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, if any, and selling expenses.

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

(g) Cash and cash equivalents

Cash and cash equivalents include 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.

(h) Revaluation reserves

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

3. ACCOUNTING POLICIES (continued)

(h) Revaluation reserves (continued)

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

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

Revaluation reserve included in equity related to an item of property and equipment is transferred directly to retained earnings as the revaluated item is depreciated and when the item is derecognized.

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

The Group registered deferred tax for the liability with reserves from the revaluation of fixed assets, including land, recorded after January 1, 2004.

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

The Group did not register deferred tax for the liability with reserves from the revaluation of fixed assets, including land, recorded prior to December 31, 2003.

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

(i) Impairment of non-financial assets

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

The recoverable amount of an asset or cash generating unit is the greater 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. 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 groups of assets ("cash generating unit").

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

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

(j) Share capital

Ordinary shares are classified as 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.

(k) Dividends

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

3. ACCOUNTING POLICIES (continued)

(l) Accounts and other payables

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

(m) Interest-bearing borrowings

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

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

Non-derivative financial assets

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

The Group derecognizes 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 recognized as a separate asset or liability.

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

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

Non-derivative financial liabilities

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

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise borrowings and trade and other payables.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a subsidiary, or items recognized 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 income tax also includes any tax liability arising from declaration of dividends.

(ii) Deferred tax

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

3. ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

(ii) Deferred tax (continued)

Deferred tax is not recognized 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 or jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- temporary differences arising on the initial recognition of goodwill.

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

Deferred tax is 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 realized simultaneously.

A deferred tax asset is recognized 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 utilized. 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 realized.

(iii) Tax exposure

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

(p) 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. Such benefit is discounted to determine its fair value, and the fair value of any related asset is deducted. Such benefits are estimated using the projected unit credit method. Any actuarial gains or losses are recognized in other comprehensive income in the period in which they arise. The other long-term employee benefits are represented by jubilee premiums.

Share-based payment transactions

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

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

3. ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

Short-term employee benefits

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

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

(q) Revenues

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

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

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

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

Thus, within the mechanism of price coupling of regional markets, the Group:

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

Connection fees

IFRIC 18 "Transfers of Assets from Customers" applies to contracts with customers in which the Group 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 Group must then use the item of property, plant or equipment to connect customers to the network.

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

The connection tariff is a regulated fee which represents the expense incurred by a network operator to connect a consumption and/or production site of a user to the electricity grid.

If the connection of a customer to the electricity transmission grid is not a major separate component of the connection contract, then the connection tariffs are recognized in the income statement on a systematic basis throughout the useful life of the asset.

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

3. ACCOUNTING POLICIES (continued)

(r) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, except for borrowings costs capitalized to qualifying assets, dividend income, foreign exchange gains and losses, commitment fees and risk commissions.

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

Interest revenues are recognized in the income statement as they accrue, using the effective interest method. Dividend revenues are recognized in the income statement as at the date when the Group's right to receive dividends is recognized.

(s) Subsidies

Subsidies are recognized 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 operating revenue on a systematic basis over the useful life of the asset. Non-refundable funds are recognized as assets when there is reasonable assurance that they will be received and the conditions attached will be met.

(t) 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.

(u) Earnings per share

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

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

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

(v) 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.

(w) Segment reporting

An operating segment is a component of an entity:

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

3. ACCOUNTING POLICIES (continued)

(w) Segment reporting (continued)

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.

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

a) Standards and Interpretations effective in the current period

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

- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 “Joint Arrangements”** - Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 “Employee Benefits”** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 “Separate Financial Statements”** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” -** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** - resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of such amendments to the existing standards has not changed the Group’s accounting policies.

3. ACCOUNTING POLICIES (continued)

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

b) Standards and Interpretations issued by IASB, but not yet adopted by the EU

At the date of authorisation of these financial statements, the following amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

IFRS 9 includes requirements on financial instruments regarding recognition, classification and measurement, impairment losses, derecognition and hedge accounting:

- *Recognition and Measurement*: IFRS 9 comes with a new approach regarding the classification of financial assets, determined by the characteristics of cash flows and the business model based on which an asset is held. Such unique principle-based approach replaces the rule-based requirements of IAS 39. The new model will also determine a single impairment model applicable to all financial instruments.

- *Impairment losses*: IFRS 9 introduces a new model for impairment losses, based on expected loss, which will require the faster recognition of expected losses on the impairment of receivables. The standard provides that entities should register expected impairment losses on receivables upon the initial recognition of the financial instruments and also recognize much faster expected impairment losses throughout the entire useful life thereof.

- *Hedge accounting*: IFRS 9 introduces a model which is significantly improved regarding hedge accounting, which comprises additional disclosure requirements regarding risk management. The new model is a significant update of hedge accounting, which enables the accounting treatment to be aligned to risk management activities.

- *Own credit*: IFRS 9 eliminates the volatility in the profit or loss arising from the change in credit risk related to liabilities measured at fair value. The change in the accounting requirements related to such liabilities implies that revenues from the mitigation of an entity's own credit risk will no longer be recognized through profit or loss.

c) *New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU*

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of authorization of these financial statements:

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 40 "Investment Property" -** Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

4. DETERMINATION OF FAIR VALUE

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

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

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

(i) Property, plant and equipment

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

5. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment between January 1, 2016 and December 31, 2015 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 2016	**55,015**	**1,350,150**	**3,019,564**	**452,861**	**53,035**	**269,792**	**406,625**	**5,607,041**
Additions	-	554	745	-	-	-	175,454	176,753
Increase/ decrease of revaluation reserves	-	-	-	-	-	-	-	-
Transfers from capital assets in progress	-	19,717	49,818	8,067	7,985	5,369	(90,956)	-
Transfers from intangible assets in progress	-	-	-	-	-	-	-	-
Reclass between assets accounts	-	444	(437)	(7)	-	-	-	-
Disposals	-	(242)	(6,344)	(1,057)	(280)	(2,672)	(293)	(10,888)
Revaluation impact	-							
Balance as at 31 December 2016	**55,015**	**1,370,623**	**3,063,346**	**459,864**	**60,740**	**272,489**	**490,830**	**5,772,906**
Balance as at 1 January 2015	**53,988**	**2,343,461**	**2,936,067**	**439,985**	**53,217**	**256,039**	**297,138**	**6,379,806**
Additions	957	74	664	375	55	162	241,623	243,910
Increase/ decrease of revaluation reserved	-	60,666	-	-	-	-	-	60,666
Transfers form capital assets in progress	71	17,040	82,606	13,020	-	14,484	(127,430)	(210)
Transfers from intangible assets in progress	-	-	-	-	-	-	(178)	(178)
Reclass between assets accounts	-	(1,282)	1,282	-	-	-	-	-
Disposals	-	(8,011)	(1,055)	(519)	(148)	(893)	(4,528)	(15,154)
Revaluation impact	-	(1,061,798)	-	-	-	-	-	(1,061,798)
Balance as at 31 December 2015	**55,015**	**1,350,150**	**3,019,564**	**452,861**	**53,035**	**269,792**	**406,625**	**5,607,041**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land and land improvements	Buildings and special installations	Machinery and equipment	Control devices	Vehicles	Other fixed assets	Construction in progress	Total
ACCUMULATED DEPRECIATION								
Balance as at 1 January 2016	**138**	**(0)**	**1,653,574**	**319,333**	**41,811**	**153,132**	**-**	**2,167,988**
Depreciation expense	-	92,498	175,370	29,598	707	30,770	-	328,943
Accumulated depreciation of disposals	-	(70)	(6,117)	(1,057)	(280)	(2,592)	-	(10,116)
Reevaluation impact	-	-	-	-	-	-	-	-
Balance as at 31 December 2016		**92,428**	**1,822,827**	**347,874**	**42,238**	**181,310**	**-**	**2,486,815**
Balance as at 1 January 2015	**138**	**999,605**	**1,480,808**	**288,884**	**39,300**	**124,989**	**-**	**2,933,724**
Depreciation expense	-	83,198	174,697	32,565	2,521	28,415	-	321,396
Accumulated depreciation of disposals	-	(21,005)	(1,931)	(2,116)	(10)	(272)	-	(25,334)
Reevaluation impact	-	(1,061,798)	-	-	-	-	-	(1,061,798)
Balance as at 31 December 2015	**138**	**(0)**	**1,653,574**	**319,333**	**41,811**	**153,132**	**-**	**2,167,988**
IMPAIRMENT ALLOWANCES								
Balance as at January 1, 2016	**-**	**-**	**-**	**-**	**-**	**-**	**12,630**	**12,630**
Impairment allowances	-	14,068	-	-	-	-	5,048	19,116
Balance as at 31 December 2016	**-**	**14,068**	**-**	**-**	**-**	**-**	**17,678**	**31,746**
Balance as at January 1, 2015	**-**	**-**	**-**	**-**	**-**	**-**	**5,456**	**5,456**
Impairment allowances	-	-	-	-	-	-	7,174	7,147
Balance as at 31 December 2015	**-**	**-**	**-**	**-**	**-**	**-**	**12,630**	**12,630**
CARRYING VALUE								
Balance as at 31 December 2016	**54,887**	**1,264,127**	**1,240,519**	**111,190**	**18,501**	**91,179**	**473,152**	**3,254,345**
Balance as at 31 December 2015	**54,887**	**1,350,150**	**1,365,990**	**133,528**	**11,223**	**116,660**	**393,995**	**3,426,423**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

The reduction of the total value of tangible assets as at December 31, 2016 compared to December 31, 2015 was due to the registration of the depreciation of such assets.

In 2016, the value of tangible assets in progress increased represented mainly by investment works in the high voltage electricity substations and lines, as follows:

- Refurbishment of 400/220/110/20 kV Bradu station – 63.461;
- 400 kV OHL interconnecting Reşiţa (Romania) to Pancevo (Serbia) – 19.661;
- Connection of 400 kV Isaccea - Varna OHL and Isaccea - Dobrudja OHL to 400 kV Medgidia Sud Station – 9,102;
- Upgrading of the 220/110/20 kV Campia Turzii Station – 8.013;
- Transition to 400 kV voltage of Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis – Stage I - 400 kV OHL s.c. Portile de Fier - (Anina) – Resita – 7.176;
- Upgrading of 110 kV and 20 kV Suceava Stations – 6.304;
- Upgrading the 400kV OHL in the Baragan Fetesti, Cernavoda - Pelicanul, Cernavoda - Gura Ialomitei (cir. 2), Bucuresti Sud – Pelicanu area within the Bucharest Transmission Branch in order to stop the galloping effect – 3.665;
- Replacement of AT and Sub-station in electrical stations – stage 2 – 5.853;
- Remedy of breakdown in emergency regime of 400 kV Iernut - Gadalin OHL and 220 kV Iernut - Baia Mare 3 OHL – 5.418;
- Upgrading of 220/110 kV Tihau Station – primary equipment – 3.897;
- Installing the optic fiber and upgrading the tele protection system on the 400 kV d.c. Tantareni-Turceni OHL and on the 400 kV s.c. Urechesti-Rovinari OHL – 2.128;
- Modernizing the internal services c.c. and c.a. in the 400/110 kV Draganesti Olt Station – 1.836;
- Connecting the CEE 136 MW from Platonesti, Ialomita County, to the ETG by making a cell of 110 kV in the 400/110 kV Gura Ialomitei Station - 1.524;
- Replacing the central equipment SCADA system Gutinas 400/220 kV – 1.468;
- Constructing new pipes at the 220 kV Craiova Nord – Isalnita OHL, circ. 1 – 1.181;
- Replacing the 110/10 kV, 25 MVA T3 and T4 electrical substation with 110/(20)10 kV, 40 MVA transformers in the 220/110/10 kV Fundeni station – 1.097;
- Construction of fiber optics between Pitesti Sud station and the center for control and supervision of installations of S.T. Pitesti – 1.049;
- Consolidation and upgrading of 400/220/110/20 kV Suceava Station building – 963;
- Connecting the power station for energy production in the cogeneration system based on biomass with the power of 5.4 MW - CTE ENVISAN - stage 1 – 956;
- The coexisting regulation between the 220 kV Mintia-Timisoara OHL, in the 303-305 section, at crossroads with Timisoara-Lugoj highway, lot 2, km 54+000-km 79+625 – 943;
- Enhancing the safe operation of installations of the 400/220/110/10 kV Bucuresti Sud substation – replacement of 10 kV equipment - Lot II – 911;
- Construction of fiber optics between 400/220/110 KV Bradu Station and 220/110 KV Stuparei Station – 849;
- Upgrading of 400/110/10 kV Cluj Est Station – 736.462;
- The 400 kV Gadalin – Suceava OHL, including the interconnection to the NPS – 716;
- Refurbishment of control building at Roman Nord Station – 651;
- Integrated security system in the 400KV Stupina Station – 625;
- Connecting the sewage of the 400/110 kV Brasov station to the city sewage plant – 541;
- 400 kV d.c. (1 c.e.) Constanta Nord-Medgidia Sud OHL – 523;
- Replacing batteries of accumulators 2 and 3 of 220 V c.c. in the 400/110/20 kV Gura Ialomitei Station – 387;
- The coexisting regulation between the 220 kV Mintia-Timisoara OHL and the Lugoj – Deva highway, lot 2, km 41+890 – 316;
- Replacing Pole no. 301 from the 400kV Mintia - Sibiu Sud OHL – 287;
- Design services for the 400 kV Suceava – Balti OHL, for the part of the project located in Romania – 246;
- Thermal modernization of the IRE Craiova headquarters building – old side – 207;
- Upgrading the Resita Power Station headquarters building– 197;
- The coexisting regulation between the 400 kV double belt OHL bypassing DN 11 - DN 13 Brașov – 182;
- Upgrading the 220/110/20 kV Ungheni substation – 176;

- Upgrading the Bradu Power Station building – 147;
- Upgrading the industrial building no. 2 at Timisoara Transmission Branch, regime Sp+P+1E – 139;
- Replacing the batteries of accumulators of 220 V c.c. in the 400 kV Arad Station – 121.

In 2016, the biggest transfers from tangible assets in progress to tangible assets consist mainly in the commissioning the investment sites as follows:

- Increasing the safety level of installations in the 400/220/110/10 kV Bucuresti Sud Station – replacing the 10 kV equipment - Lot II - 18.611;
- Transition to 400 kV voltage of Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis – Stage I- Extension of the 400 kV Portile de Fier Station – 12.963;
- Replacement of AT and Sub-station in electrical stations – stage 2: 16 MVA Transformer in 110/20kV T2 Ungheni Station, T2 transformer - 25 MVA in the 220/110/20 kV Gradiste Station, T1 25 MVA transformer in the 110/20kV Gheorgheni Station, AT2 200MVA automatic transformer in the 220/110kV Ungheni Station - 9.802;
- Cars – 7.803;
- Upgrading of the control protection system of the 220/110 kV Vetis Station – 6.491;
- Upgrading in order to stop the effect of fluctuations on the 400 kV OHL in the Baragan-Fetesti area. Mitigation of the effects of fluctuations on the 400 kV Cernavoda-Pelicanu OHL, 400kV Cernavoda-Gura Ialomitei OHL (circ. 2) and the 400kV Bucuresti Sud-Pelicanu OHL – 4.399;
- Connection to the NPG of the Filipesti - 60 MW power station and Saucesti power station - 100 MW in the 400/110 kV Bacau Sud Station – 4.239;
- Replacing the 110/10 kV, 25 MVA T3 and T4 electrical substation with 110/(20)10 kV, 40 MVA transformers in the 220/110/10 kV Fundeni station - 3.784;
- Integrated security system in the power stations stage IV - the 400/110 kV Constanta Nord power station - 3.317;
- Connecting the CEE 27 MW from Stalpu, Buzau county, to the ETG by making two cells of 110 kV in the 220/110 kV Stalpu station - 2.107;
- Integrated security system in the 400KV Stupina Station - 1.911;
- Upgrading the c.c. si c.a. internal services in the 400/110 kV Draganesti Olt station - 1.876;
- Replacing the central equipment SCADA system Gutinas 400/220 kV – 1.485;
- Constructing new pipes at the 220 kV Craiova Nord – Isalnita OHL, circ. 1 – 1.231;
- Upgrading the industrial building no. 2 at Timisoara Transmission Branch, regime Sp+P+1E – 1.176;
- Upgrading of one cell at the 110 kV Porţile de Fier - Gura Văii OHL at the 110 kV Portile de Fier Station and two cells of 6 kV – 1.079;
- Consolidation and upgrading of 400/220/110/20 kV Suceava Station building – 1.016;
- Connecting the power station for energy production in the cogeneration system based on biomass with the power of 5.4 MW - CTE ENVISAN - stage 1 – 956;
- The coexisting regulation between the 220 kV Mintia-Timisoara OHL, in the 303-305 section, at crossroads with Timisoara-Lugoj highway, lot 2, km 54+000-km 79+625 - 943;
- Extending the c.a. si c.c. internal services, completing the protection and control system in the 220/110 kV Pestis station – 594;
- Connecting the sewage of the 400/110 kV Brasov station to the city sewage plant – 558;
- Replacing Pole no. 301 from the 400 kV Mintia - Sibiu Sud OHL – 527;
- Replacing batteries of accumulators 2 and 3 of 220 V c.c. in the 400/110/20 kV Gura Ialomitei Station – 387;
- The coexisting regulation between the 220 kV Mintia-Timisoara OHL and the Lugoj – Deva highway, lot 2, km 41+890 – 316.

In accordance with the provisions of Art. 46 of ANRE Order no. 59/2013 approving the Regulation on the consumers' connection to the public electricity grids, the receipt of the installations resulting from the works performed to build and commission the connection facilities, ANRE Order no. 59/2013 approving the Regulation regarding the connection of consumers to public electricity grids provides as follows:

For the following projects included in outstanding tangible assets in progress, funded from the connection tariff, the technical conditions to prepare the Commissioning Minutes have not been met:

- Connection to the ETG of the 56 MW Bogdăneşti wind plant, 112.5 MW Deleni wind plant, 20.8 MW Viişoara Nord 1 wind plant, 52.8 MW Viişoara Nord 1 wind plant, 47.5 MW Viişoara Sud wind plant, in the area of certain localities in Vaslui county, via the new 400/220/110 kV Banca electrical substation – the work is not completed, there is minutes upon completion of works no. 34759/14.11.2013; the contract is in force until 31.12.2017; total value of ongoing investment – 48,018;

- Connection to the ETG of the 99 MW Dumeşti wind plant and 30 MW Romanesti, in the area of Dumeşti and Romanesti localities, Iaşi county, through a 110 kV line cell at 220/110 kV FAI Substation, Iaşi county, in amount of RON 2,546 , minutes upon completion of works no. 14584/29.04.2014 is concluded in connection with the investment and the contract is in force until 31.12.2016;
- Connection to the ETG of the 147 MW Valea Dacilor at 400/110 kV Medgidia Sud Substation, in amount of RON 2,401, minutes upon completion of works no. 44722/22.12.2014 is concluded in connection with the investment, and the contract was terminated on 31.12.2015.

Tangible assets, except "Buildings and special installations" were not revalued in 2016 and 2015. The management concluded that:

- market prices did not change significantly as compared to 2012, when the Group performed the last revaluation, and
- there is no indication of impairment of the assets held by the Group both internally and externally.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Land was revalued as at December 31, 2011 based on the market approach. Also, "Other tangible assets" were revalued as at December 31, 2011.

Buildings and special installations were revalued as at December 31, 2015 by SC JPA Audit & Consultanta SRL, independent valuer authorized by the National Union of Authorized Valuers in Romania.

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

- tangible assets classified in Group 1 – "Buildings" represented by "Buildings" registered in the Company's books as at December 31, 2015, fully depreciated, proposed for scrapping;
- the Company's own sources used to fund assets from the State's public domain, registered in the Company's books as at December 31, 2015, fully depreciated, included in the inventory of the State's public domain;
- the Company's own sources (structural funds and connection tariff) used to fund assets from the State's public domain, included in the inventory of the public domain, for which no depreciation has been computed.

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

The net excess recognized by the Group as at December 31, 2016 from the revaluation of buildings and special constructions in amount of 34,369, of which 48,663 was registered in the reserve account credit and (14,295) was registered in the profit and loss of 2015.

Buildings and special installations are presented in the financial statements at net value. To give a clearer, more concise and more relevant image to the users of the financial statements, without being biased by an artificial misstatement of the gross accounting value and depreciation, the Company changed the revaluation registration method as at December 31, 2015, from gross to net.

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

As at December 31, 2016 and December 31, 2015 the Group did not have any assets pledged or mortgaged.

Fair value of property, plant and equipment

The Group's property, plant and equipment other than property, plant and equipment in progress are disclosed in the financial statements at restated value, which is the fair value as at the valuation date less accumulated depreciation and impairment allowances.

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

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

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

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

Information on the hierarchy of fair value as at December 31, 2016 and December 31, 2015:

	Level 1	Level 2	Level 3	Fair value as at December 31, 2016
Land and land improvements	-	-	54,887	54,887
Buildings and special installations	-	-	1,264,127	1,264,127
Plant and machinery	-	-	1,240,519	1,240,519
Measurement and control devices	-	-	111,990	111,990
Vehicles	-	-	18,501	18,501
Other property, plant and equipment	-	-	91,179	91,179

Property, plant and equipment in progress	473,152	473,152

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Fair value of property, plant and equipment (continued)

	Level 1	Level 2	Level 3	Fair value as at December 31, 2015
Land and land improvements	-	-	54,887	54,887
Buildings and special installations	-	-	1,350,150	1,350,150
Plant and machinery	-	-	1,365,990	1,365,990
Measurement and control devices	-	-	133,528	133,528
Vehicles	-	-	11,223	11,223
Other property, plant and equipment	-	-	116,660	116,660
Property, plant and equipment in progress			393,995	393,995

There were no transitions between the fair value levels in 2016 or in 2015.

The value at cost of property, plant and equipment as at December 31, 2016 and December 31, 2015, net of accumulated expenses with depreciation and impairment is presented below:

	Value at cost December 31, 2016	Value at cost December 31, 2015
Land and land improvements	10,604	9,632
Buildings and special installations	792,683	783,263
Plant and machinery	1,265,368	1,299,359
Measurement and control devices	98,782	119,141
Vehicles	10,479	901
Other property, plant and equipment	100,019	124,846
TOTAL	**2,277,935**	**2,337,142**

6. INTANGIBLE ASSETS

	Other intangible assets	Licences and software	Intangible assets in progress	Total
COST				
Balance as at 1 January 2016	**4,104**	**75,102**	**28,450**	**107,656**
Additions	-	441	5,049	5,490
Transfers from intangible assets in progress	-	2,271	(2,271)	-
Transfers from tangible assets in progress	-	-	-	-
Disposals	-	(7,517)	(22,951)	(30,468)
Balance as at 31 December 2016	**4,104**	**70,927**	**8,277**	**82,678**
Balance as at 1 January 2015	**4,104**	**74,112**	**28,450**	**106,666**
Additions	-	812	-	812
Transfers from intangible assets in progress	-	543	(543)	-
Transfers from tangible assets in progress	-	218	543	761
Disposals	-	(584)	-	(584)
Balance as at 31 December 2015	**4,104**	**75,102**	**28,450**	**107,656**
ACCUMULATED AMORTISATION				
Balance as at 1 January 2016	**4,104**	**68,401**	**-**	**72,505**
Amortisation expense	-	2,915	-	2,915

Accumulated amortisation of disposals	-	(7,517)	-	(7,517)
Balance as at 31 December 2016	**4,104**	**63,799**	**-**	67,903
Balance as at 1 January 2015	**4,104**	**62,441**	**-**	**66,545**
Amortisation expense	-	6,483	-	6,483
Accumulated amortisation of disposals	-	(523)	-	(523)
Balance as at 31 December 2015	**4,104**	**63,401**	**-**	**72,505**
CARRYING VALUE				
Balance as at 31 December 2016	**-**	**6,498**	**8,277**	**14,775**
Balance as at 31 December 2015	**-**	**6,701**	**28,450**	**35,151**

6. INTANGIBLE ASSETS (continued)

The net value of intangible assets decreased compared to December 31, 2015 by:

- In-kind contribution of CNTEE Transelectrica SA in the share capital of Subsidiary SC OPCOM SA for the Electricity Exchange OPCOM and the Regional Electricity Exchange OPCOM funded by IBRD funds, according to Resolution no. 6 of EGMS of 15.06.2016 of SC OPCOM SA and the Certificate for registration of specifications of 11.07.2016 – 22,587;
- Expenses registered by the Group upon the write-off of intangible asset in progress "Regional Electricity Exchange OPCOM", based on Valuation Report no. 786/15.03.2016 issued by JPA Audit&Consultanta SRL – 363.

During 2016, the major transfers from tangible assets in progress to intangible assets are represented by:

- Various software licenses - Adobe, Autocad, CorelDraw, Oracle, Acrobat XI Pro, etc. – 762;
- NEPLAN software licenses + licenses for CIM/XML 7 Software NEPLAN modules: 2 new licenses, 5 CIM/XML modules and upgrade for 13 NEPLAN licenses +5 licenses for CIM/XML modules – 705;

The outstanding intangible assets in progress as at December 31, 2016 are mainly:

- Archiving and management of electronic documents and automating the flow, which aims at automating the flow of documents, converting hard copy documents into electronic documents, management and archiving thereof, in amount of RON 5,474;
- Technical assistance for the investment objective MIS Extension – Advanced reporting solution and budgetary planning, which is intended to extend the MIS system by a Business Intelligence component which includes both reporting, measuring and benchmarking functions of Performance Indicators, and forecasting and planning functions, in amount of RON 3,048;
- Replacement of EMS SCADA AREVA system components - software, Hardware – 2,778
- Extension of business continuity and disaster recovery services – 351.

7. INVENTORIES

As at December 31, 2016 and December 31, 2015 inventories are as follows:

	December 31, 2016	December 31, 2015
Spare parts	24,079	24,599
Consumables and other materials	6,849	8,273
Auxiliary materials	9,173	10,583
Other inventories	5,617	2,739
Total	**45,475**	**46,194**

As at December 31, 2016 and December 31, 2015 impairment allowances are as follows:

	December 31, 2016	December 31, 2015
Impairment of consumables	4,289	2,139
Impairment of other materials	4,323	4,197
Impairment of packaging	35	36
Total	**8,647**	**6,372**

As at December 31, 2015 and December 31, 2014 allowances for inventory impairment is as follows:

	December 31, 2016	December 31, 2015
Balance as at January 1	**6,372**	**4,034**
Recognition of provisions	2,275	2,357
Reversal of provisions	-	19
Balance at the end of the year	**8,647**	**6,372**

In 2016 and 2015, expenses with consumption of materials and spare parts are as follows:

	December 31, 2016	**December 31, 2015**
Spare parts	18,524	27,455
Other consumables	4,629	4,576
Other materials	1,890	1,855
Auxiliary materials	396	613
Fuel	2,302	2,387
Total	**27,741**	**36,916**

8. TRADE AND OTHER RECEIVABLES

As at December 31, 2016 and December 31, 2015 trade and other receivables are as follows:

	December 31, 2016	**December 31, 2015**
Trade receivables	878,374	689,981
Other receivables	134,009	188,243
Advances to suppliers	19,171	
Non-refundable funds to be recovered	-	21,666
VAT to be recovered	28,433	5,239
Allowance for doubtful trade receivables	(103,381)	(89,312)
Allowance for other doubtful receivables	(92,274)	(86,429)
Total	**864,332**	**729,388**

8. TRADE AND OTHER RECEIVABLES (continued)

Trade receivables are as follows:

	December 31, 2016	December 31, 2015
Customers – energy market, of which:	**863,707**	**679,682**
- customers – operating activity - energy	428,634	400,984
- customers – balancing market	255,981	110,268
- customers – bonus support scheme to promote high-efficiency cogeneration	179,093	168,429
Other customers	14,667	10,299
Total	**878,374**	**689,981**

- CNTEE Transelectrica SA operates based on Operating License no. 161/2000 issued by ANRE, revised by ANRE President Decision no. 270/04.02.2015, for the provision of the electricity transmission service, system service and administration of the balancing market.

As at December 31, 2016, the clients on balance in terms of operating activity and the balancing market registered an increase as compared to December 31, 2015 mainly due to:

- the increase of the level of transmitted electricity;
- the increase in the amount of transactions on the balancing market in December 2016 compared to December 2015, causing the increase of outstanding receivables as at December 31, 2016 compared to December 31, 2015;
- the collection on January 3, 2017 of receivables related to the balancing market due as at December 30, 2016.

The main outstanding customers on the electricity market are: CIGA Energy, RAAN, Electrica Furnizare, Societatea Energetica Electrica, Enel Energie, Enel Energie Muntenia, Opcom. The electricity customers account for approximately 49% out of total trade receivables.

- CNTEE Transelectrica SA conducts its activities corresponding to the bonus support scheme for the promotion of high-efficiency cogeneration in its capacity as administrator of the support scheme, in accordance with the provisions of RGR no. 1215/2009, "its main duties being the monthly collection of the cogeneration contribution and the monthly payment of bonuses".

As at December 31, 2016, the Company registers receivables under the support scheme for promoting high efficiency cogeneration which account for 21% (December 31, 2015 - 25%) out of the total trade receivables.

The clients that are part of the bonus support scheme for the promotion of high-efficiency cogeneration registered as at December 31, 2016 an increase driven mainly the electricity suppliers' failure to pay the high efficiency cogeneration contribution on time.

Between January 1 and December 31, 2016, the amounts related to the bonus support scheme decreased as follows:

- 11,843 representing overcompensation for 2014, of which collections by bank transfer in amount of 5,053 (Termo Calor – 196 and Electrocentrale Oradea – 4,857) and compensation-based collections through the Management and Informatics Institute (as per GR no. 685/1999) in amount of 6,791 (Electrocentrale Oradea);

- 96,646 representing overcompensation for 2015, of which collections by bank transfer in amount of 12.362 (CET Grivita, Veolia Prahova, Veolia Iasi, Thermoenergy) and compensation-based collections through the Management and Informatics Institute (as per GR no. 685/1999) in amount of 84.284 (Complex Energetic Oltenia, Enet and Electrocentrale Bucuresti);

- 2,675 representing undue bonus for 2015, of which collections from bank transactions in amount of 325 (Electrocentrale Bucuresti) and compensation-based collections through the Management and Informatics Institute (as per GR no. 685/1999) in amount of 2,350 (CET Arad and Energy Cogeneration).

As at December 31, 2016, the Company registered receivables in amount of de 123.569 representing issued invoices related to the bonus support scheme for the promotion of high-efficiency cogeneration, of which:

- overcompensation for the period 2011 - 2013 in amount of 76,702 , i.e. from RAAN – 63,467 and CET Govora SA – 1,394;

- overcompensation for 2014 in amount of 1,393,972, namely from Electrocentrale Oradea –1,394,
- undue bonus for 2014 in amount of 3,914,960, namely from RAAN – 1,981,235, CET Govora – 1,934;
- undue bonus for 2015 in amount of 563,899, namely from CET Govora - 534.377, Interagro - 30;
- overcompensation for 2015 in amount of 13,233,555, namely from Electrocentrale Oradea – 13,234
- cogeneration contribution not received from the suppliers of the electricity consumers, in amount of 27.761, namely: Transenergo Com – 4,741, Enel Energie – 4,693, Enel Energie Muntenia – 4.611, PetProd – 4,391, Romenergy Industry – 2,681, RAAN- 2,386, UGM Energy – 1,814 and others).

To settle the receivables driven by the overcompensation for the period 2011 – 2013, the Company has requested producers to perform mutual compensations.

RAAN did not agree with this manner of settling the mutual receivables and liabilities, therefore Company has applied and is applying the provisions of Article 17 paragraph 5 of Order no. 116/2013 of the ANRE President approving the Regulation establishing the manner of collecting the high-efficiency cogeneration contribution and paying the bonus for the electricity produced from high-efficiency cogeneration: *"if the producer has failed to pay the support scheme administrator all of its payment obligations resulting in accordance herewith, then the support scheme administrator shall pay the producer the difference between the value of the invoices issued by the producer and the producer's payment obligations in connection with the support scheme, with a clear indication on the payment document of the said amounts"* and has withheld the amounts of the bonus scheme due.

CNTEE Transelectrica SA concluded with CET Govora SA a convention to compensate and schedule the payments representing receivables from the counter value of the overcompensation for 2011 - 2013 and the undue bonus for 2014 (Convention no. C 135/30.06.2015 and Additional Act no. 1/04.08.2015). The term of the Convention was 1 year (July 2015 - August 2016) and provided the Company's right to calculate and receive penalties for the period of the payment scheduling.

Under the Convention, the Company's receivables from CET Govora SA have been set off against the liabilities to CET Govora SA, represented by cogeneration bonus for the period May 2014 – October 2015 withheld through the application of the provisions of Art. 17 paragraph 5 of ANRE President Order no. 116/2013 and the Convention provisions, in amount of 40,507,669.

Further to the staying of the proceedings, by Civil Judgment no. 3185/27.11.2015, related to ANRE Decision no. 738/28.03.2014 which established the value of the overcompensation for 2011 - 2013, CET Govora SA has no longer complied with the obligations assumed under the Convention.

As of May 9, 2016, the general insolvency proceedings were initiated against CET Govora. In order to recover the receivables arising prior to the insolvency, the Company followed the specific procedures provided by Law no. 85/2014 – Insolvency Law and requested the court to admit the receivables, according to law.

Given the above, as of May 9, 2016, the Company ceased to apply the provisions of Art. 17.5 of ANRE President Order no. 116/2013 approving the Regulation laying down the manner of collecting the high efficiency cogeneration bonus and payment of the bonus for the electricity produced in high efficiency cogeneration and paid each month the cogeneration bonus to CET Govora.

By Civil Judgment no. 2430/05.10.2016, the High Court of Cassation and Justice admitted the final appeal filed by ANRE against Civil Judgment no. 3185/27.11.2015, quashed in part the challenged judgment and rejected the application for suspension filed by CET Govora. The judgment is final. Thus, starting from 05.10.2016, the effects of ANRE Decision no. 738/28.03.2014 are no longer suspended, producing full effects.

Given these circumstances, the Company applies the provisions of Art. 17 para. 5 of ANRE Order no. 116/ 2013 for the mutual liabilities and receivables arisen subsequent to the insolvency proceedings, in the sense of returning the bonus owed to CET Govora SA up to the limit of the amounts related to the support scheme not paid to the Company.

In September 2016, CNTEE Transelectrica SA concluded a contract with SC Termoficare Oradea for the takeover of the debt of SC Electrocentrale Oradea representing overcompensation for 2014 and 2015. The debt took over, in amount of 29,259, was scheduled in 24 monthly tranches (31.10.2016 - 30.09.2018), and the 9,775 was reclassified to non-current receivables, due in more than 1 year.

Given the provisions of Government Resolution 925/2016, described above at Note 1, the Company does not register provisions for the support scheme. The receivables not recovered is included in the cogeneration contribution.

8. TRADE AND OTHER RECEIVABLES (continued)

Other receivables

As at December 31, 2016, other receivables in amount of 133,916 include mainly:

- delay penalties calculated for bad debts, in amount of 59,769 (of which 25,925 represents penalties related to the support scheme).

The biggest delay penalties have been registered by: RAAN (16.901), SC CET Govora (9.607), SC Eco Energy SRL (8,910), SC Petprod SRL (8,895), Arcelor Mittal Galati (3,993), Total Electric Oltenia (3.289). For penalties calculated for the delayed payment of receivables from operating activities, the following impairments have been accounted for:

- receivables to be recovered from ANAF in amount of 44,443 (see paragraph below).
- the receivable to recover from OPCOM representing the VAT related to the in-kind contribution in the subsidiary's capital in amount of 4,517;
- prepaid expenses in amount of 10.574 represented mainly by advances to the contracts concluded with the electricity suppliers needed to cover the own technological consumption for future periods (8.501), guarantee commission for the loan from IEB 25710 (90) and origination loan fee due to ING (681), technical maintenance and support (225), rentals (585);
- other non-current receivables in amount of 4,386 , of which 4,068 represents guarantees for temporarily occupying the land, calculated and withheld in accordance with Art. 39 paragraphs (1), (2) and (5) of Law no. 46/2008 of the Forestry Code (execution of the investment site 400 kV Resita– Pancevo (Serbia) OHL.

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

Transelectrica is in litigation with ANAF, which issued a tax report on September 20, 2011 on VAT return for the period September 2005 – November 2006 for 123 unused invoices identified as missing (these have been destroyed during 26-27 June 2009, at the working point from Millenium Business Center from Armad Calinescu street 2-4, district 2 where the Company undertook its activity), these being documents with special regime, and for which it estimated VAT collected of RON 16,303 plus RON 27,196 as penalties. The total value of these obligations amounts to RON 43,499. The value of these liabilities was retained from the VAT paid by the Company in November 2011. Subsequently, the Company has found that the amounts paid as current VAT were considered as being the payment for the liabilities mentioned above.

Thus, Transelectrica was forced to pay additional penalties of Lei 944 related to VAT that should have been paid in November 2011, in order to avoid accumulating additional debts towards the State budget. In total, in 2011 the Company paid RON 44,443. The Company made use of all legal means to contest the tax return issued by ANAF, so an appeal was filed with ANAF against the decision and a request was submitted to suspend the enforcement of the decision until the appeal filed against ANAF is finalized by administrative means. The request to suspend the enforcement of the tax report was rejected by the court of law.

The Company believes that the tax base has not been determined reasonably by ANAF, considering the fact that the activity on the electricity market is entirely regulated, this being determined proportionally based on the number and value of the invoices issued during the period under verification. Transelectrica considered it was entitled to bring action in court, as the Company believes that ANAF has not taken into account all the data and documents relevant for the estimate, as provided by the Fiscal Procedure Code then applicable. Thus, the Company sued ANAF to the Bucharest Court of Appeal in August 2012 for the recovery of the amount and has requested the admission of the documents and the judiciary accounting expert appraisal as evidence.

On September 18, 2013, the accounting expert appraisal report was prepared, which was submitted to the case file at the hearing of September 20, 2013. At the hearing of October 18, 2013, the parties made several objections to the judiciary expert appraisal report, which were approved by the court at the hearing of November 15, 2013 and were communicated to the designated expert. At the hearing of March 7, 2014, the expert presented the response to the objections made by the Company. Compared to the revenues estimated by ANAF, based on which ANAF estimated a VAT collected in amount of 16,303 the judiciary accounting expert appraisal report found unjustified revenues amounting to 551 , the amount to which VAT and penalties should have been applied. The hearing was adjourned for the acknowledgement of the content of the response to the objections to the expert appraisal report.

At the hearing of April 30, 2014, the ruling issued by the court of first instance – Bucharest Court of Appeal, Section VIII – Administrative and Tax-related Disputes (Ruling No. 1356/2014 – /30.04.2014) in File no. 6657/2/2012 was as follows: "Rejects the request of plaintiff CNTEE Transelectrica SA (Challenge to the administrative and fiscal deed issued by ANAF)". The Company filed final appeal by filing the application to resume the trial filed in this file. The hearing was held at the High Court of Cassation and Justice.

On 07.04.2016, for lack of procedure, a new hearing was scheduled for 02.06.2016, at which the court ruling remained pending and postponed it until 16.06.2016.

At such hearing, the High Court of Cassation and Justice – the Administrative and Tax-related Disputes Section rendered Decision no. 1945/16.06.2016, whereby it ordered as follows: "Admits the application and reinstates the plaintiff-appellant in the position of filing a final. Rejects the final appeal filed by the National Electricity Transmission Company "Transelectrica" against Judgment no. 1365 of April 30, 2014 of the Bucharest Court of Appeal – Section VIII Administrative and Tax-related Disputes, as ungrounded. Irrevocable. Issued in open court, today, 16 June 2016." Decision no. 1945/16.06.2016 issued by the High Court of Cassation and Justice was communicated to the Company by photocopy.

Against Decision no. 1945/16.06.2016 the Company filed an appeal for annulment to the High Court of Cassation and Justice. On 01.03.2017, the High Court of Cassation and Justice ordered as follows by Decision no. 779: "rejects the exception of inadmissibility of the appeal for annulment filed by applicant Transelectrica SA, invoked in the statement of defense by respondent the General Directorate for the Management of Large Taxpayers. Rejects the appeal for annulment filed by applicant Transelectrica SA against Civil Judgment no. 1945 of 16 June 2016 of the High Court of Cassation and Justice – Administrative and Tax-related Disputes Section, issued in File no. 6657/2/2012, as ungrounded. Irrevocable".

8. TRADE AND OTHER RECEIVABLES (continued)

Advances to suppliers

As at December 31, 2016, advances to suppliers are represented by debtor suppliers for services supplies in amount of 19,155, of which 19,133 represents amounts from transactions conducted under the price coupling mechanism. On November 19, 2014, the price coupling mechanism was first used, when Project “4Market Market Coupling”, which provides the connection of Day Ahead electricity markets (Day Ahead Market) in Romania, Hungary, The Czech Republic and Slovakia became operational. Within the mechanism of price coupling of day ahead markets, the electricity exchanges correlate, by tenders, electricity transactions for the day ahead depending on the interconnection capacity made available by TSOs through which it is implicitly allocated. CNTEE Transelectrica SA, as TSO, transfers electricity, both physically, and commercially, to the neighboring TSO (MAVIR-Hungary) and manages revenues flowing from congestions on such interconnection (Art. 139 of ANRE Order no. 82/2014), and in relation to SC OPCOM SA, it is Implicit Participant on the DAM.

As Transfer Agent and Implicit Participant, CNTEE Transelectrica SA must settle the energy traded between SC OPCOM SA and MAVIR.

Impairment of trade receivables, of bad trade receivables and other bad debts

The policy of Transelectrica is to book impairment allowances for 100% loss for clients in litigation, in insolvency and bankrupt and of 100% for trade and other receivables due for more than 180 days, except for overdue receivables generated by the support scheme. The Company also performs an individual analysis for uncollected trade and other receivables.

As at December 31, 2016 the highest amounts for impairment allowances and related penalties were recorded for SC Petprod SRL (29,242), SC Eco Energy SRL (24,736), SC Total Electric Oltenia SA (14,186), Romenergy Industry (13,019), RAAN (8,662), Also Energ (7,177), Opcom (4,517). To recover the impaired receivables, the Company has taken actions such as legal proceedings, registration in the list of receivables etc.

As at the same date, the Company registered debt impairment of 44,443 for the total liabilities paid to ANAF.

The exposure to collection risk and value adjustments related to trade receivables are presented in Note 27.

Non-current receivables

As at December 31, 2016, the Group registered non-current receivables in amount of RON 9,775, representing trade receivables scheduled for payment, due within more than 1 year, related to the support scheme for promoting high efficiency cogeneration.

In September 2016, CNTEE Transelectrica SA concluded with SC Termoficare Oradea SA, as “new debtor”, and with SC Electrocentrale Oradea SA, as “initial debtor”, Contract no. C 177/26.09.2016 for takeover of debt.

SC Termoficare Oradea SA undertakes to pay RON 29,259, representing overcompensation for the activity of SC Electrocentrale Oradea SA between 2014 and 2015, in 24 monthly tranches, until 30.09.2018.

The Lei 9,775, due within more than 1 year, was reclassified to non-current receivables and represents the overcompensation for 2015.

9. OTHER FINANCIAL ASSETS

As at December 31, 2016 and December 31, 2015 short-term investments are as follows:

	December 31, 2016	December 31, 2015
Bank deposits more than 90 days maturity	135,090	70,085
Total	**135,090**	**70,085**

Bank deposits more than 90 days maturity, established from the cash available in current accounts are in amount of 135,090 as at December 31, 2016 and 70,085 as at December 31, 2015.

10. CASH AND CASH EQUIVALENTS

As at December 31, 2016 and December 31, 2015 cash and cash equivalents are as follows:

	December 31, 2016	December 31, 2015
Current bank accounts and deposits with original maturities of less than 90 days	852,588	768,402
Cash from high efficiency cogeneration	107,812	175,599
Cash from revenues related to the allocation of interconnection capacities used for investments in the grid	77,026	58,727
Terasury certifcates	-	49
Petty cash	89	52
Other cash equivalents	-	-
Total	**960,489**	**1,002,829**

Bank deposits with original maturities of less than 90 days, constituted out of cash and cash equivalents available in current accounts (including cogeneration deposits), are in amount of 688,115 as at December 31, 2016 (595,622 as at December 31, 2015.

11. SHAREHOLDERS' EQUITY

Share capital

In accordance with GEO no. 86/2014 on the establishment of reorganization measures at the level of the central public administration and for the amendment and supplementation of certain acts of legislation, the transfer of the 43,020 shares from the Romanian State under the administration of the General Secretariat of the Government to the Romanian State under the administration of the Ministry of Economy, Commerce and Tourism was registered in the Company's Shareholders' Registry on February 20, 2015.

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

At the end of each reporting year, the Company's share capital subscribed and fully paid in, in amount of Lei 733,031,420 is divided into 73,303,142 ordinary shares having a nominal value of Lei 10/share and is consistent with the share capital registered with the Trade Registry Office.

11. SHAREHOLDERS' EQUITY (continued)

Share capital (continued)

As at December 31, 2016 and December 31, 2015 the shareholding is as follows:

	December 31, 2016		December 31, 2015	
Shareholder	**Number of shares**	**% of the share capital**	**Number of shares**	**% of the share capital**
Romanian State through MECRBE	43,920,309	58.69%	43,920,309	58.69%
Other legal entity shareholders	3,949,105	5.39%	3,949,105	5.39%
Other individual shareholders	26,333,728	35.92%	26,333,728	35.92%
Total	**73,303,142**	**100.00%**	**73,303,142**	**100.00%**

Starting on July 29, 2016 up until the date of these financial statements, participation of S.I.F. Oltenia dropped below 5%.

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

As at December 31, 2016 and December 31, 2015 the share capital is as follows:

	December 31, 2016	December 31, 2015
Share capital (nominal value)	733,031	733,031
Differences from restatement as per IAS 19		
Share capital balance	**733,031**	**733,031**

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

The amount of dividends due to shareholders distributed from the 2015 profit, according to GMS Resolution no. 3/28.04.2016, was 194,253, which were paid through the Central Depositary as of June 28, 2016.

The amount of unpaid dividends as at December 31, 2016 is 1,313 (December 31, 2015: 1,387).

Share premium

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

Legal reserves

Legal reserves in the amount of 116,552 as at December 31, 2016 and 99,599 as at December 31, 2015 represent legal reserves according to the statutory legislation and cannot be distributed. The Company transfers to this reserve at least 5% of its annual accounting profits (GEO no. 64/2001, Law no. 571/2003) until the cumulative balance reaches 20% of its paid in share capital.

Revaluation reserves

The revaluation reserve amounts to 458,184 as at December 31, 2016 and 512,781 as at December 31, 2015. As at December 31, 2015, buildings and special installations were revalued by SC JPA Audit & Consultanta SRL, independent valuer authorized by the National Union of Authorized Valuers in Romania ("ANEVAR").

11. SHAREHOLDERS' EQUITY (continued)

Other reserves

As at December 31, 2016, other reserves amount to 57,627 (56,368 as at December 31, 2015), of which 20,953 represents the value of structural funds received from the Managing Authority for Sectoral Operational Program "Increase of Economic Competitiveness" and 32,718 represents the value of subsidies from connection tariffs, which were used to finance accepted investment works in assets that are part of the State's public domain, and RON 3,283 represents the value of the land for which the title deeds were obtained. As described in Note 24, land for which the title deeds are obtained is first recognized at fair value in other reserves and followed by an increase in share capital after it is recorded at the Trade Registry Office.

Retained earnings

Retained earnings amount to 1,714,462 as at December 31, 2016 and 1,608,506 as at December 31, 2015.

Out of the profit obtained as at December 31, 2016 the amount of 78,045 was transferred to "Other reserves", of which:

- 50,583 represents the appropriation of net revenues resulting from the allocation of interconnection capacities performed in 2016. According to Regulation (EC) no. 714/2009 and ANRE Order no. 53/2013, revenues resulting from the allocation of interconnection capacity must be applied to make investments in the electricity transmission grid to maintain or increase interconnection capacities.

Under these circumstances, the revenues obtained in 2016 from the allocation of interconnection capacity (net of income tax and the legal reserve) were distributed as provided by Art.1 letter d) of GEO no. 64/2001 "Other distributions provided by law".

Upon the appropriation of revenues resulting from the allocation of interconnection capacities in 2016 to "other appropriations provided by law" the Company considered the negative correction in amount of 18,846 of regulated revenue, as a correction element resulting from the tariff period July 1, 2014 – June 30, 2015 (846 lei) and from the tariff period July 1, 2015 – June 30, 2016 (18,000 lei), applied by ANRE when determining the average electricity transmission tariff for the tariff period July 1, 2016 – June 30, 2017. Thus, the 18,846 does not turn into funding source for investments in maintaining and/or enhancing the cross-border interconnection capacity of the electricity transmission grid in Romania, instead the amount is used to calculate the transmission tariff as source additional to the revenue obtained from the transmission tariff for covering the regulated costs corresponding to the tariff periods July 1, 2014 – June 30, 2015 and July 1, 2015 – June 30, 2016.

- 27,46 represents the transfer to reserves of the tax exempt profit, less the portion related to legal reserve, as of July 1, 2014, according to the provisions of Art. 22 of Law no. 227/2015 of the Fiscal Code, as subsequently amended and supplemented.

Proposal to allocate net profit as at December 31, 2016

The accounting profit registered by CNTEE Transelectrica SA as at December 31, 2016, which is proposed for allocation, amounts to 278,823, 6,462 higher that the net accounting profit, because the 6,462 representing the employees' profit sharing is registered as 2016 expenses in the form of a provision.
Given these circumstances, the proposal to allocate the accounting profit remaining after deducting income tax as at December 31, 2016, in amount of 278,823, by legal destinations, is:

Destination	Amount
Accounting profit remaining after deducting income tax as at December 31, 2016 (includes the provision for the employees' profit sharing)	278,823
Allocation of accounting profit to the following destinations:	
Legal reserve (5%)	16,953
Other allocations provided by law - exemption of reinvested income tax	27,462
Other allocations provided by law – income obtained in 2016 by allocating the interconnection capacity (net of income tax and legal reserve)	50,583
Employees' profit sharing (expense with allowance in 2016)	6,462
Dividends owed to shareholders and other reserves established as own funding source	177,363
Profit not allocated	-

The proposal to allocate the accounting profit remaining after deducting income tax as at December 31, 2016 was made in accordance with the legal provisions in force, namely:
- GO no. 64/2001 – on the allocation of the profit of national companies, national undertakings and commercial companies fully or majority State-owned, and autonomous companies, approved as amended by Law no. 769/2001, as subsequently amended and supplemented;
- MoPFO no. 128/2005 – on certain accounting regulations applicable to economic agents;
- MoPFO no. 144/2005 – approving the specifications for determining the amounts subject to profit allocation according to GO no. 64/2001 on the allocation of the profit of national companies, national undertakings and commercial companies fully or majority State-owned, and autonomous companies, approved as amended by Law no. 769/2001, as subsequently amended and supplemented;
- Law no. 227/2015 on the Tax Code, as subsequently amended and supplemented;
- the income and expenditure budget for 2016 approved by SGM Resolution no. 1/28.03.2016;
- Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003;
- ANRE Order no. 53/2013, subsequently amended and supplemented, approving the methodology laying down the tariffs for the transmission of electricity;
- the report approving the average tariff for the transmission service issued by ANRE by Letter no. 54539/26.07.2016 on the dates taken into account by ANRE when determining the tariffs for the tariff period July 1, 2014 – June 30, 2015 and for the tariff period July 1, 2015 – June 30, 2016 (including the correction for income from the allocation of the interconnection capacity).

The 2016 accounting profit remaining after the deduction of the income tax was allocated as follows:
a) - legal reserve in amount of 16,953, set at 5% according to the provisions of Art. 26 para. (1) letter a) of Law no. 227/2015 on the Tax Code, as subsequently amended and supplemented;
b) – other allocations provided by law in amount of 27,462, representing exempted reinvested income tax, in accordance with the provisions of Art. 22 of Law no. 227/2015 on the Tax Code, as subsequently amended and supplemented;
c) – other allocations provided by law in amount of 50,583 representing income obtained in 2016 from the allocation of the interconnection capacity (net of income tax and legal reserve), allocated according to Art. 1 letter d) of GO no. 64/2001 on the allocation of the profit of national companies, national undertakings and commercial companies fully or majority State-owned, and autonomous companies, as subsequently amended and supplemented, corroborated with EC Regulation no. 714/2009 and ANRE Order no. 53/2013, which that the income obtained from the allocation of interconnection capacities must be used for investments in the grid to maintain or enhance interconnection capacities.

When distributing the income obtained from the allocation of interconnection capacities obtained in 2016 for "Other allocations provided by law", the Company took into account the negative correction in amount of 18,845,649.79 of regulatory income, as an element of correction deriving from tariff period July 1, 2014 – June 30, 2015 (845,649.79 which is added to the 17,729,577.06 previously set by ANRE) and from tariff period July 1, 2015 – June 30, 2016 (18,000,000), used by ANRE in determining the average electricity transmission tariff for tariff period July 1, 2016 – June 30, 2017. Thus, the 18,845,649.79 does not become funding source for investments to maintain and/or enhance the cross-border interconnection capacity of the Romanian electricity transmission grid, being instead used to calculate the transmission tariff as an additional source to the income obtained from the transmission tariff to cover the regulatory costs for tariff periods July 1, 2014 – June 30, 2015 and July 1, 2015 – June 30, 2016;

d) – the employees' profit sharing, in amount of 6,462 – within the limit of 10% of the net profit, but no more than one average monthly base salary earned in the Company in 2016 multiplied by the average number of employees in 2016, according to the provisions of GO no. 64/2001 on the allocation of the profit of national companies, national undertakings and commercial companies fully or majority State-owned, and autonomous companies, as subsequently amended and supplemented, and the provisions of MoPFO no. 144/2005 approving the specifications for determining the amounts subject to profit allocation according to GO no. 64/2001;
The employees' profit sharing was reflected in the financial statements prepared for 2016 by setting up a provision for the employees' profit sharing, according to the provisions of MoPFO no. 128/2005 on certain accounting regulations applicable to economic agents;

e) - dividends due to shareholders and other reserves established as own funding in the amount of 177.363 are to be distributed according to the decision of General Meeting of Shareholders.

On establishing the value of gross dividends due to shareholders it will be taken into account the number of shares existing on the date of the financial statements of 2016, respectively 73.303.142 shares, and the gross dividend per share will be determined considering three decimal places after the decimal point. Also, when preparing the financial statements, the Company considers the following documents:

- Address of the Ministry of Economy no. 1258 / 21.03.2017 regarding the request for distribution as dividends of a quota of 90% of the 2016 profit according to the Memorandum approved by the Romanian Government with the theme *Empowering State representatives in the General Meeting of Shareholders / Board of Directors, as applicable, to national companies, national companies and companies entirely or majority owned by the state and the autonomous administrations, in order to take necessary measures for the allocation of a quota of 90% of the 2016 net profit as dividends/ payments to the State budget;*

- Dividend distribution policy of Transelectrica SA, approved by the Supervisory Council, Decision no. 12/2016 and by the General Shareholders Meeting, Decision no. 1/28.03.2016.

12. DEFERRED INCOME

Deferred income include mainly connection tariff, other investment subsidies, non-refundable European funds from the Ministry of European Funds, as well as revenues from the allocation of interconnection capacity.

The deferred income as at December 31, 2016 is as follows:

	December 31, 2016	**Out of which short term portion as at 31.12.2016**	**December 31, 2015**	**Out of which short term portion as at 31.12.2015**
Deferred income – allocation of interconnection capacity	6,579	6,579	2,761	2,761
Deferred income – European funds	1,320	1,320	107	107
Funds from connection tariff	319,026	21,082	342,553	20,808
European funds	109,441	7,473	117,638	7,033
Other subsidies	35,351	1,571	38,298	2,699
Total	**471,717**	**38,025**	**501,357**	**33,408**

12. DEFERRED INCOME (continued)

The movement of short-term deferred income for 2016 and 2015 is as follows:

	December 31, 2016	December 31, 2015
Opening balance	33,408	33,070
Cash in advance related to interconnection capacity	38,685	26,265
Collections from European funds	1,213	56
Connection fee transferred from long-term deferred income (connection tariff)	(413)	26
Revenues from using the interconnection capacity	(34,868)	(25,623)
Revenues from European funds	-	(386)
Total	**38,025**	**33,408**

The movement of long-term deferred income for 2016 is as follows:

	December 31, 2016	December 31, 2015
Opening balance	467,949	559,489
Connection subsidies	(2,951)	(38,265)
Reclassification of connection subsidies to public patrimony	-	(31,459)
Non-refundable funds	33	10,924
Non-refundable funds to be repaid	(137)	(1,881)
Transfer to short-term deferred income	413	(26)
Release of deferred income	(31,615)	(30,833)
Total	**434,891**	**467,949**

The amount of 1,259 represents the value of subsidies for the connection tariff, which were used to fund accepted investment works in 2016 belonging to the State's public domain.

On March 4, 2016, CNTEE Transelectrica SA received a notification from the Ministry of Energy on the status of reimbursement application no. 3/18.12.2015 for upgrading 400/110/20 kV Tulcea Vest Substation, whereby it was informed that the payment of 4.827 was approved. The 4,827 was received by the Group on July 22, 2016. According to Minutes for Acknowledgment of Inconsistencies no. 231668/11.04.2016, out of the 4,827 received, the Company reimbursed RON 137.

13. BORROWINGS

Long-term loans

As at December 31, 2016 and December 31, 2015 long-term loans from credit institutions are as follows:

Description	**December 31, 2016**	**December 31, 2015**
NIB PIL No 02/18 (a)	11,337	18.212
IBRD 7181 (b)	74,348	113,751
NIB PIL No 03/5 (c)	20,889	31.219
NIB PIL No 02/37 (d)	11,182	16.712
KfW 10431 (e)	9,522	19.435
KfW 11300 (f)	9,611	24.012
JBIC (g)	-	9.030
BRD (h)	-	6.600
EIB 25709 (i)	98,391	108.923
EIB 25710 (i)	105,910	116.447
BRD-ING (j)	95,363	133.020
Unsecured bonds (k)	200,000	200.000
Less: Short-term portion of long-term loans	**(134,624)**	**(162.774)**
Total long-term loans, net of short-term portion	**501,930**	**634.590**

13. BORROWINGS (CONTINUED)

Long-term loans as at December 31, 2016 are as follows:

No.	Loan name	Loan date	Value of loan (currency)	Balance as at December 31, 2016 (currency)	Balance as at December 31, 2016 (RON)	Interest rate	Maturity date as per loan
1	NIB PIL 02/18	19.02.2003	18,442 USD	2,635 USD	11,337	LIBOR 6M+0.9%	16.04.2018
2	BIRD 7181	15.07.2003	71,623 EUR	16,372 EUR	74,348	Latest communicated: 0.19%	15.01.2020
3	NIB PIL 03/5	12.11.2004	23,000 EUR	4,600 EUR	20,889	EURIBOR 6M+0.85%	15.09.2018
4	NIB PIL 02/37	25.02.2004	12,928 EUR	2,462 EUR	11,182	EURIBOR 6M+0.9%	17.09.2018
5	KfW 10431	12.08.2004	21,885 EUR	2,097 EUR	9,522	EURIBOR 6M+0.6%	31.07.2017
6	KfW 11300	12.08.2004	30,833 EUR	2,116 EUR	9,611	EURIBOR 6M+0.6%	31.07.2017
7	JBIC	25.06.2004	2,621,145 JPY	- JPY	-	3.1%	15.09.2016
8	BRD	10.02.2010	33,000 RON	- RON	-	ROBOR 6M+1.25%	31.08.2016
9	BEI 25709	05.08.2010	32,500 EUR	21,667 EUR	98,391	3.596%	10.09.2025
10	BEI 25710	05.08.2010	32,500 EUR	23,323 EUR	105,910	3.856% and 2.847%	11.04.2028
11	ING+BRD	26.07.2012	42,000 EUR	21,000 EUR	95,363	EURIBOR 6M+2.75%	13.02.2019
12	Unsecured bonds	19.12.2013	200,000 RON	200,000 RON	200,000	6.1%	19.12.2018
	TOTAL				**636,554**		

Long-term loans are detailed as follows:

a) Loan no. 02/18 from NIB PIL

The loan from NIB was granted in 2003. The total amount due as at December 31, 2016 is USD 2.635. The loan was granted to finance the rehabilitation of 400/210 kV Slatina electrical substation. 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.

b) Loan no. 7181 from IBRD

The loan from IBRD was granted in 2003 for the objective "Electricity Market". The total amount outstanding as at December 31, 2016 is EUR 16.372. The loan bears a variable interest rate communicated by IBRD depending on the financing cost. The interest rate for the last instalment was 0.19%. The repayment is performed biannually (on January 15 and July 15 of each year), starting July 15, 2008, the last instalment being scheduled on January 15, 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.

13. BORROWINGS (CONTINUED)

c) Loan no. 03/5 from NIB PIL

The loan from NIB was granted on November 12, 2004 for the rehabilitation of 400/220/110 kV Gutinas Electrical Substation. The amount outstanding as at December 31, 2016 is EUR 4,600. The interest rate is six months EURIBOR plus 0.85%. Repayment is performed biannually, in equal instalments starting March 15, 2009, the last instalment being scheduled on September 17, 2018.

d) Loan no. 02/37 from NIB PIL

The loan was granted by NIB on February 25, 2004 for the rehabilitation of 400/220 kV Rosiori Electrical Substation. The amount outstanding as at December 31, 2016 is EUR 2.462. Interest rate is six months EURIBOR plus 0.90%, repayment is performed biannually in equal instalments starting September 15, 2008, the last instalment being scheduled on September 17, 2018.

e) Loan no. 10431 from KfW

The loan has been granted by KfW on August 12, 2004 for the objective of the rehabilitation of 400/220/110 kV Sibiu Sud Electrical Substation. The amount outstanding as at December 31, 2016 is EUR 2.097. The interest rate is six months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting with January 31, 2008, the last instalment being scheduled on July 31, 2017.

f) Loan no. 11300 from KfW

The loan has been granted by KfW on August 12, 2004 for the rehabilitation and modernization of 400/220/100 Kv Bucuresti Sud Electrical Substation. The amount outstanding as December 31, 2016 is EUR 2.116. The interest rate is six months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting with January 31, 2008, the last instalment being scheduled on July 31, 2017.

g) Loan from JBIC

The loan has been granted by JBIC on June 25, 2004 for the rehabilitation of Brazi Substation. The amount outstanding as at December 31, 2016 is JPY 0. The interest rate is 3.10%, the repayment was performed biannually, in equal instalments starting with March 15, 2007, the last instalment being scheduled on September 15, 2016.

h) Loan from BRD Groupe Société Générale SA

The loan was granted by BRD – Groupe Societe Generale SA in February 2010 to finance the Modernization and Upgrading of Gura Ialomiței, Lacu Sărat, Isalnita and Gutinas substations and other projects under the 2009 – 2010 investment program. The amount outstanding as at December 31, 2016 is RON 0. 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.

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

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

The amount outstanding as at December 31, 2016 for EIB loan 25709 is EUR 21,666 and for EIB loan 25710 is EUR 23,323.

13. BORROWINGS (CONTINUED)

Loan agreement no. 25709 includes certain financial covenants: (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.

Loan no. 25710 from EIB is guaranteed by CitiBank Europe PLC, Dublin – Romania branch. The contract bears a guarantee commission of 0.46% per annum, computed at 115% of the value of the balance. The guarantee contract concluded on January 26, 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.

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

The loan was granted in July 2012 by the consortium made up of ING Bank N.V., Amsterdam (Bucharest branch) and BRD – Groupe Société Générale SA. The loan is meant to finance the following investments: refurbishment of 400/200/110/20kv Lacu Sărat substation, refurbishment of 220/110kv Mintia substation, integrated security systems in substations and replacement of autotransformers and transformers in electrical substations. The repayment period is of 84 months with a grace period of 24 months, with equal instalments payable every semester starting from August 2014. The loan bears a variable rate of EURIBOR 6 months plus a margin of 2.75%. In 2015, the Company negotiated the interest level for such loan, reducing the interest by 1.2%, from 3.95% to 2.75%.

The loan is guaranteed 122,5% through assignment of receivables. The amount outstanding as at December 31, 2016 is EUR 21,000.

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.

k) Bonds issue

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

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

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

As at December 31, 2016, the financial covenants corresponding to loan contracts, including from bonds issue, were met.

The long-term portion of the loans is repayable as follows:

	December 31, 2016	December 31, 2015
Between 1 and 2 years	311,712	133,886
Between 2 and 5 years	95,402	384,416
Over 5 years	94,816	116,287
Total	**501,930**	**634,590**

The Group has not undertaken any hedge actions 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 December 31, 2016, the long-term loans guaranteed by the Romanian Government through the Ministry of Public Finance are: IBRD 7181, NIB PIL no. 03/5, NIB PIL no. 02/18, NIB PIL no. 02/37 and JBIC.

13. BORROWINGS (CONTINUED)

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

From November 2016, the loan is secured by the assignment of the receivables that the Company has to collect only from SC EON Energie Romania SA and SC Enel Distributie Muntenia SA.

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

Short-term loans

As at December 31, 2016 and December 31, 2015, the short-term loans are as follows:

	December 31, 2016	December 31, 2015
Current share of long-term loans	134,624	162,774
Credit lines	17,343	13,332
Interest on long and short-term loans	3,140	4,215
Interest of bonds	441	373
Total short-term loans	**155,548**	**180,694**

Transelectrica contracted a credit line in February 2016 from BRD GROUP SOCIETE GENERALE SA, Large Corporate Clients Branch for a term of 12 months, to finance the support scheme for high efficiency cogeneration, available as overdraft, in amount of 150,000, at an interest calculated at ROBOR 1M, plus a negative margin of 0.05%. If the ROBOR 1M reference rate is lower than 0.05%, then the interest rate applied is 0.

The credit line is not used as at December 31, 2016. It was secured by:

- chattel mortgage over the bank account opened with the bank;

- chattel mortgage over the receivables resulting from contracts on the high-efficiency cogeneration contribution concluded with CEZ Vanzare S.A., E.ON Energie Romania S.A., Repower Furnizare S.R.L., Tinmar Energy S.A.

14. EMPLOYEE BENEFITS OBLIGATIONS

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

Also, according to the collective labor agreement, the Company provides long-term benefits to both employees - depending on length of service and seniority within the Company - and to former employees after retirement. The benefits awarded to management personnel are included in Note 26, under the caption "*Remuneration of Company's management*".

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

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

The actuarial computations referring to the post-employment benefits and other long-term benefits were made by an authorized actuary, based on the services supply contract no. C 211/09.11.2016 concluded with Mr. Silviu Matei.

14. EMPLOYEE BENEFITS OBLIGATIONS (continued)

The employee benefits obligations are as follows:

	December 31, 2015	Interest cost	Cost of current service	Payments from provision	Actuarial loss for the year	December 31, 2016
Jubilee benefits to be granted to current employees	18,143	786	1,921	1,375	7,242	26,718
Maternity benefits to be granted to current employees	-	1	60	57	70	74
Premiums granted upon retirement of current employees	9,985	465	2,751	916	3,225	15,512
Premiums granted for termination of labor agreement	-	2	96	62	65	101
Counter value of electricity to be paid to current employees after retirement	9,807	340	(1,857)	-	350	8,640
Counter value of electricity paid to current retirees	8,224	308	(520)	614	(392)	7,006
	46,159	**1,902**	**2,451**	**3,023**	**10,561**	**58,050**

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

	December 31, 2016	December 31, 2015
Discount rate		
For the first 5 years	interest curve expressed in RON, without adjustments, issued by EIOPA for December 2016 0.975%; 1.393%; 1.799%; 2.197%; 2.565%	0.81%; 1.23%; 1.64%; 2.04%; 2.40%
For more than 5 years	interest curve expressed in RON, without adjustments, issued by EIOPA for December 2016, at its peak of 4.587% for 25 years and dropping to 4.358% for 85 years	4.33%
Salary increase	4% in the first 3 years, 3% in the 4th year and 2% in the remaining years	1%

15. TRADE AND OTHER LIABILITIES

As at December 31, 2016 and December 31, 2015, trade and other liabilities are as follows:

	December 31, 2016	December 31, 2015
Suppliers on the energy market	591,679	514,808
Suppliers of non-current assets	77,668	26,433
Other suppliers	22,286	42,697
Payables to employees	6,170	6,355
Other liabilities	179,255	188,953
Total	**877,058**	**779,506**

- As at December 31, 2016 and December 31, 2015, liabilities on balance on the energy market are in amount of 591.679 and 514,808 and are broken down as follows:

	December 31, 2016	December 31, 2015
Suppliers on the electricity market, of which:		
- suppliers – operations – energy	122,864	174,758
- suppliers - balancing market	286,775	164,652
- suppliers in the bonus support scheme for the promotion of high-efficiency cogeneration	182,040	175,397
Total	**591,679**	**514,808**

- The decrease of liabilities to suppliers from operations – energy was due to:

  - the decrease in the purchase price of electricity required to cover own technological consumption (OTC).
  - payment of outstanding obligations on the electricity market as at December 31, 2015.

- The increase of liabilities to suppliers on the balancing market was due to the increase of amount of transactions on the balancing market in December 2016 compared to December 2015, causing an increase of liabilities to suppliers on this market, outstanding as at December 31, 2016 compared to December 31, 2015.

The suppliers on the electricity market are represented mainly by: SC Hidroelectrica SA, RAAN, Mavir, Complex Energetic Hunedoara, Electrocentrale Bucuresti, CET Govora, Complex Energetic Oltenia. As at December 31, 2016, they accounted for approximately 72% in the total energy suppliers.

- The increase of liabilities related to the support scheme to suppliers (producers) was due to withholding the payment of the cogeneration bonus and the prior overcompensation due to producers, on account of the receivables not received by the Company from the same support scheme producers, represented by the overcompensation of the period 2011 - 2013, by applying the provisions of Art. 17 paragraph 5 of ANRE President Order no. 116/2013.

As at December 31, 2016, the Group registered payment obligations to suppliers (producers) in amount of 52,490 (RAAN – 49,077, CET Govora SA – 3.369), representing the cogeneration bonus and the prior overcompensation for 2014 and 2015, and the bonus not paid for 2015. Amounts representing the Company's debts related to the support scheme, to RAAN and CET Govora were withheld from payment under Art. 17 para. 5 of ANRE President Order no. 116/2013 as suppliers (producers) register debts to the Company under the bonus support scheme.

The Company has requested producers (Company's suppliers) that have not paid the overcompensation invoices their consent to set off mutual liabilities at the minimum level thereof through the Institute of Management and Informatics (IMI) which manages all the information coming from taxpayers, under GR no. 685/1999.

15. TRADE AND OTHER LIABILITIES (continued)

RAAN has rejected this modality of setting off mutual receivables and liabilities, therefore, the Company has applied and is applying the provisions of Article 17 paragraph 5 of Order no. 116/2013 of the ANRE President approving the Regulation establishing the manner of collecting the high-efficiency cogeneration contribution and paying the bonus for the power produced from high-efficiency cogeneration: *"if the producer has failed to pay the support scheme administrator all of its payment obligations resulting in accordance herewith, then the support scheme administrator shall pay the producer the difference between the value of the invoices issued by the producer and the producer's payment obligations in connection with the support scheme, with a clear indication on the payment document of the said amounts"* and has withheld the amounts of the bonus scheme due.

CNTEE Transelectrica SA concluded with CET Govora SA a convention to set off and schedule the amounts representing receivables from the counter value of the overcompensation for the period 2011 - 2013 and the undue bonus for 2014 (Convention no. C 135/30.06.2015 and Addendum no. 1/04.08.2015). The Convention was concluded for 1-year term (July 2015 -August 2016) and provided the Company's right to compute and receive penalties throughout the payment scheduling period.

Under the Convention, the Company's receivables from CET Govora SA have been set off against the liabilities to CET Govora SA, represented by cogeneration bonus for the period May 2014 – October 2015 withheld pursuant to the provisions of Art. 17 paragraph 5 of ANRE President Order no. 116/2013 and the Convention provisions, in amount of 40,508.

Further to the staying of the proceedings, by Civil Judgment no. 3185/27.11.2015, related to ANRE Decision no. 738/28.03.2014 which established the value of the overcompensation for 2011 - 2013, CET Govora SA has no longer complied with the obligations assumed under the Convention.

As of May 9, 2016, the general insolvency proceedings were initiated against CET Govora. In order to recover the receivables arising prior to the insolvency, the Company followed the specific procedures provided by Law no. 85/2014 – Insolvency Law and requested the court to admit the receivables, according to law.

Given the above, as of May 9, 2016, the Company ceased to apply the provisions of Art. 17.5 of ANRE President Order no. 116/2013 approving the Regulation laying down the manner of collecting the high efficiency cogeneration bonus and payment of the bonus for the electricity produced in high efficiency cogeneration and paid each month the cogeneration bonus to CET Govora.

By Civil Judgment no. 2430/05.10.2016, the High Court of Cassation and Justice admitted the final appeal filed by ANRE against Civil Judgment no. 3185/27.11.2015, quashed in part the challenged judgment and rejected the application for suspension filed by CET Govora. The judgment is final. Thus, starting from 05.10.2016, the effects of ANRE Decision no. 738/28.03.2014 are no longer suspended, producing full effects.

Given these circumstances, the Company applies the provisions of Art. 17 para. 5 of ANRE Order no. 116/ 2013 for the mutual liabilities and receivables arisen subsequent to the insolvency proceedings, in the sense of returning the bonus owed to CET Govora SA up to the limit of the amounts related to the support scheme not paid to the Company.

- The increase of the balance of suppliers of non-current assets as at December 31, 2016 compared to December 31, 2015 was due to the initiation of new investment projects.

- Liabilities to suppliers of other activities are mainly represented by outstanding third party liabilities, which have decreased compared to December 31, 2015.

- The liabilities registered as "Other liabilities" are as follows:

	December 31, 2016	**December 31, 2015**
Sundry creditors	134,136	182,622
Advance payments from customers	33,620	3,021
Dividends payable	1,313	2,085
Other liabilities	10,186	1,225
Total	**179,255**	**188,953**

As at December 31, 2016, "Sundry creditors" in amount of 134,136 represent mainly the net position of the support scheme regarding the high efficiency cogeneration which, as at December 2016, is a liability in amount of 128.273 (December 31, 2016: 180,877).

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

- the contribution to be received from the suppliers of the electricity consumers, the overcompensation of power and heat production from high-efficiency cogeneration for the period 2011-2013 for 2014 and 2015, the undue bonus for 2014 and 2015 – receivable from producers, according to ANRE decisions, on the one hand, and

- the cogeneration bonus, withheld under Art. 17 para. 5 of ANRE President Order no. 116/2013, the prior overcompensation for 2014 and the bonus not granted for 2015 – payable to energy producers in high-efficiency cogeneration, beneficiaries of the support scheme, on the other hand.

15. TRADE AND OTHER LIABILITIES (continued)

As at December 31, 2016, "Advance payments from customers" are in amount of 33,620, of which 9,842 represents amounts collected in advance from MAVIR and 18,887 represents amounts collected in advance from OPCOM in the transactions related to the price coupling mechanism.

As at December 31, 2016, the dividends due to shareholders and not paid are in amount of 1,313, of which 577 relates to the dividends distributed from the profit of 2015. Such amounts are available to the shareholders through the payment agent.

Other liabilities in amount of 10,186 are mainly represented by good performance bonds of payment contracts on the electricity market concluded by CNTEE Transelectrica SA in amount of 7,987.

16. PROVISIONS

As at December 31, 2016 and December 31, 2015 the provisions were as follows:

	December 31, 2016	December 31, 2015
Litigation	4,411	6,598
Provisions for share based payment	42,355	26,293
Fund for employees' profit sharing	7,968	8,132
Other provisions	540	2,393
TOTAL	**55,274**	**43,416**

Outstanding provisions as at December 31, 2016 are as follows:

	Provisions for litigation	Provisions for share based payments	Provision for employees' profit sharing	Other provisions
Opening balance as at January 1, 2016	**6,598**	**26,293**	**8,132**	**2,393**
Additions in provisions (through profit and loss)	-	18,534	7,935	126
Reversal of provisions (through profit and loss)	(2,187)	(2,472)	(8,098)	(1,979)
Additions in provisions (through OCI)	-	-	-	-
Reversal of provisions (through OCI)	-	-	-	-
Closing balance as at December 31, 2016	**4,411**	**42,355**	**7,968**	**540**

Provisions for litigation outstanding as at December 31, 2016 in total amount of RON 4,441 consist mainly of provisions created for payroll-related litigation with employees in amount of 195, and for the litigation with OPCOM in amount of RON 2,670 regarding the fine imposed following the European Commission's investigation.

As at November 24, 2014, Subsidiary SC OPCOM SA started a litigation against CNTEE Transelectrica SA asking for damages in total amount of EUR 582 (RON 2,585 at the official exchange rate as at November 24, 2014) representing the penalty paid to European Commission by it out of the total penalty of EUR 1,031 applied to subsidiary OPCOM S.A. by the European Commission, in the context in which subsidiary SC OPCOM SA paid the entire fine applied by the European Commission.

OPCOM SA also requested the court to compel the Company to pay 84 as legal interest for the period 11.06.2014 – 24.11.2014, to which court expenses of 37 (see Note 24 *iii*) are added.

As at December 31, 2016, the Company registered a provision of 42.355 (26,293 as at December 31, 2015) for the annual variable component due to the members of the Management Board and the Supervisory Board (see Note 26).

The provision in amount of 7,968 is mainly represented by the provision created for the employees' profit sharing for 2016 in amount of 6,462 and for contributions payable to the State budget, in amount of 1,473.

16. INCOME TAX

Income tax for 2016 and 2015 is as follows:

	2016	**2015**
Current income tax expense	67,346	75,061
(Income from) / Expense with deferred income tax	(4,468)	(4,262)
Total	**62,878**	**70,799**

The current and deferred tax of the Company for 2016 and 2015 is determined at a statutory rate of 16%, in force in 2016 and 2015.

Reconciliation of the effective tax rate:

	2016	**2015**
Profit before income tax	**321,872**	**429,823**
Income tax at statutory rate of 16%	51,500	69,372
Effect of non-deductible expenses	21,350	16,459
Effect of non-taxable income	(5,261)	(7,864)
Taxable revaluation reserve	4,906	3,732
Legal reserve	(2,712)	(3,357)
Income tax exempted	(4,625)	(3,280)
Other effects	(2,460)	(4,262)
Income tax	**62,878**	**70,799**

16. INCOME TAX (continued)

Movement in deferred tax balances during 2016 and 2015 is as follows:

Elements	Balance as at January 1, 2015	Recognized in profit or loss	Tax recognized directly in OCI	Balance as at December 31, 2015	Recognized in profit or loss	Tax recognized directly in OCI	Balance as at December 31, 2016
Property, plant and equipment – useful life	1,300	1,736	-	3,036	1,284	-	4,320
Property, plant and equipment – revaluation reserves	32,440	(3,708)	16,661	45,393	(4,521)	-	40,872
Property, plant and equipment financed by subsidies	-	(1,136)	-	(1,136)	(563)	-	(1,699)
Employee benefits	(5,300)	612	-	(4,688)	1,019	-	(3,699)
Interconnection estimate	(952)	483	-	(469)	(13)	-	(482)
Provisions	(1,958)	(2,249)	-	(4,207)	(2,570)	-	(6,777)
Tax (assets)/liabilities	**25,828**	**(4,262)**	**16,661**	**37,929**	**(5,364)**	**-**	**32,565**

Deferred tax consists of:

	Asset		Liability		Net	
	31-dec-16	**31-dec-15**	**31-dec-16**	**31-dec-15**	**31-dec-16**	**31-dec-15**
Property, plant and equipment - life	(854)	(452)	5,174	3,488	4,320	3,036
Property, plant and equipment – revaluation reserves	(4,520)	(8,263)	45,392	53,656	40,872	45,393
Property, plant and equipment financed by subsidies	(1,699)	(1,139)	-	3	(1,699)	(1,136)
Employee benefits	(3,699)	(5,587)	-	899	(3,699)	(4,688)
Interconnection estimate	(482)	(469)	-	-	(482)	(469)
Provisions	(6,777)	(4,207)	-	-	(6,777)	(4,207)
Net tax (assets)/liabilities	**(18,031)**	**(20,116)**	**50,566**	**58,045**	**32,565**	**37,929**

17. EARNINGS PER SHARE

As at December 31, 2016 and December 31, 2015, the earnings per share were as follows:

	2016	2015
Consolidated profit for the period	**258,994**	**346,105**
Number of ordinary shares at the beginning and at the end of the period	73,303,142	73,303,142
Basic and diluted earnings per share (RON/share)	**3.53**	**4.72**

18. OTHER TAX AND SOCIAL SECURITY LIABILITIES

As at December 31, 2016 and December 31, 2015 the other tax and social security liabilities are as follows:

	December 31, 2016	December 31, 2015
Contribution to social security funds	6,325	5,116
VAT payable	2,126	282
Tax on salaries	2,487	2,039
Other tax payable	1,353	1,257
Total	**12,291**	**8,694**

19. REVENUES

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

The average tariffs approved by ANRE for the services provided on the electricity market are as follows:

	Average tariff for transmission services	Tariff for system services	Tariff for functional system services
Order no. 27/22.06.2016 – for the period July 1- December 31, 2016	18.70	11.58	1.30
Order no. 93/25.06.2015 – for the period July 1 –June 30, 2016	20.97	12.58	1.17
Order no. 51/26.06.2014 – for the period January 1 –June 30, 2016	22.50	12.54	1.42

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

The zonal tariffs for the transmission service for injecting electricity into the grid (T_G) were approved by ANRE Order no. 89/2015, as of July 1, 2015.

The zonal tariffs for the transmission service (T_L) were approved by ANRE Order no. 93/2015, as of July 1, 2015.

The zonal tariffs for the transmission service for injecting electricity into the grid (T_G) and for extracting electricity from the grid (T_L) were approved by ANRE Order no. 27/2016, as of July 1, 2016.

19. REVENUES (continued)

The quantity of electricity delivered to consumers at which the tariffs for services on the energy market were applied is as follows:

	2016	2015
Quantity of electricity (MWh)	53,523,021	52,473,065

Revenues on the balancing market resulted from transactions carried out on such market as described in Note 1.

The revenues obtained in 2016 and 2015 are as follows:

	2016	2015
Revenues from electricity transmission	1,056,520	1,174,403
Revenues from the allocation of the interconnection capacity	82,233	102,161
Revenues from reactive energy	6,954	7,795
Revenues from transactions with own technological consumption	254	132
Inter TSO Compensation (ITC) revenues	296	317
Total revenues from electricity transmission	**1,146,257**	**1,284,808**
Revenues from functional system services	66,139	67,960
Revenues from technological system services	648,802	662,003
Revenues from unplanned exchanges on DAM	1,399	1,242
Total revenues from system services	**716,340**	**731,205**
Balancing market	814,080	923,035
Other revenues	61,411	46,730
Total revenues	**2,738,088**	**2,985,779**

Revenues from electricity transmission and functional system services

As the electricity delivered to consumers increased in 2016 as compared to 2015, by approximately 2%, i.e. 1,049,956 MWh, the revenues from electricity transmission decreased by 117.883 determined by the decrease of the average tariffs approved by ANRE (according to the table of average tariffs approved by ANRE for the analysed periods, presented above).

In 2016, revenues from functional system services decreased from 1,821 compared to 2015, due to the decrease of the average tariff charged in the period July 1, 2015 – June 30, 2016, from RON 1.42/MWh to RON 1.17/MWh.

The effects of the decrease of the average tariff charged in the period July 1, 2015 – June 30, 2016 were partly compensated by an increase of electricity delivered to consumers in 2016 compared to 2015, by 2%, i.e., 1,049,956 MWh and an increase of the average tariff approved by ANRE starting from July 1, 2016, from RON 1.17/MWh to RON 1.30/MWh.

Revenues from the allocation of interconnection capacity

The allocation of the interconnection capacity consists of organizing annual, monthly, daily and intra-day tenders. Annual, monthly and intra-day tenders are explicit - only the transport capacity is tendered, and the daily tenders with Hungary are implicit – the capacity is allocated simultaneously with the energy, through the coupling mechanism.

Further to the setting up as of November 19, 2014 of the regional energy stock exchange by Romania, Hungary, The Czech Republic and Slovakia, these four countries are expected to charge a unique price for the electricity traded on spot market. The capacity between Romania and Hungary, the only country out of the three which Romania borders, is allocated by transporters Transelectrica and MAVIR, through a joint mechanism based on a bilateral agreement.

Starting from 2016, the UIOSI principle was implemented, according to which the participants that do not use the capacity won in the annual and monthly tenders along the Bulgarian border are remunerated (by Transelectrica) for such capacity.

The capacity is then sold in the daily tenders. On the Hungarian border the mechanism is the other way around, which means that MAVIR remunerates participants for capacities not used.

The interconnection capacity allocation market is floating, and price rise according to electricity market participants' demand for and the need to acquire, interconnection capacity.

19. REVENUES (continued)

In 2016, in the tenders, the prices along the Serbian, Hungarian and Bulgarian borders, the prices were lower compared to 2015, which determined a decrease by 19.928.520 of revenues from the allocation of the interconnection capacity.

The net revenues from the allocation of interconnection capacity are used in accordance with Art. 22 paragraph (4) of ANRE Order no. 53/2013 and Art. 16 paragraph (6) of (EC) Regulation no. 714/2009, as funding source for investments for the modernization and development of the interconnection capacity with neighboring systems.

Revenues from technological system services

The revenues from technological system services decreased in 2016 compared to 2015 by 13.201 mainly due to the decrease of the average tariff approved by ANRE for such services by 7.9%, from RON 12.58/MWh to RON 11.58/MWh, starting from July 1, 2016 (according to the table of average tariffs approved by ANRE for the analysed periods, presented above), given that the amount of electricity increased by 2%.

In 2016, the revenues from technological system services were higher by 87,775 as compared to expenses incurred with acquiring realized technological system services. The profit was obtained due to the profitable market conditions and a good management of the tender procurement of the required power from electricity producers, which resulted in obtaining lower average unit prices compared to the forecasted unit prices based on which the tariff for the technological system services was calculated.

Such amount is included in the Company’s gross profit as at December 31, 2016.

Revenues on the balancing market

In 2016, the revenues from the balancing market decreased by 108,955,694 as compared to 2015, due to the decrease of the deficit registered by electricity suppliers (BRPs), namely the decrease of the imbalance between the net contractual position notified and the energy actually delivered.

The main factors for the reduction of the amount of energy selected on the balancing market to cover the deficit registered by electricity suppliers are:
- the system was balanced by putting into operation/maintaining in operation several heating units / furnaces and by selecting a lower amount of energy at increased power compared to the similar period of 2015;
- the level of unpredictability and volatility of production from renewable sources (especially wind) was lower than in 2015;
- subcontracting on the markets prior to the balancing market (given that BRPs did not register significant value of the imbalance notifications) and poor participation/trading on the intra-day electricity market.

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

20. SYSTEM OPERATING EXPENSES AND BALANCING MARKET EXPENSES

The system operating and balancing market expenses are as follows in 2016 and 2015:

	2016	**2015**
Expenses with own technological consumption	182,981	187,004
Congestion costs	2,931	1,013
Electricity consumption in ETG stations	15,383	14,078
Expenses with functional system services	12,687	12,151
ITC expenses (Inter TSO Compensation)	16,775	17,604
Total expenses with the system operation	**230,757**	**231,851**
Expenses with technological system services	561,027	637,653
Balancing market expenses	814,080	923,035
Total	**1,605,864**	**1,792,539**

Expenses with own technological consumption

These are expenses regarding the purchase of electricity from the free energy market to cover own technological consumption (CPT) in the ETG.

Compared to 2015, such expenses decreased in 2016 by 4,023 mainly due to:

- the decrease of the amount of electricity needed to cover the OTC in the ETG by approximately 1.9%, from 1,030 TWh in 2015 to 1,010 TWh in 2016;
- the decrease of the average acquisition price of electricity needed to cover the OTC in the ETG, from RON 181.37/MWh in 2015 to RON 180.65/MWh in 2016.

Also, the decrease of technological losses in terms of quantity was due both to the more advantageous import/export flows in terms of OTC, and the more favorable weather conditions which determined the decrease of Corona losses and a more advantageous distribution of a favorable mix of electricity production.

Congestion costs

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

The registration of congestion costs in 2016 in amount of 2,931,330 is largely the result of accidental withdrawals, the result of unfavorable weather conditions registered in the first part of 2016 (400 kV Tariverde– Tulcea Vest OHL, in January 2016, 400 kV Iernut – Gadalin OHL, 220 kV Iernut – Baia Mare III OHL, in June 2016).

To comply with the safety criterion in Dobrogea, the values notified by CEE Dobrogea were reduced on the balancing market, which debits the 110 kV electricity grid from Dobrogea (less Pantelimon and Cerna power stations) and the 400 kV Tariverde OHL.

20. SYSTEM OPERATING EXPENSES AND BALANCING MARKET EXPENSES (continued)

Expenses with functional system services

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

Such expenses increased in 2016 by 535,830 mainly due to increased expenses on the balancing market with unplanned exchanges (exports) with neighboring countries interconnected to the NPG.

ITC (Inter TSO Compensation) expenses

ITC expenses represent the monthly receivable/payable obligations for each TSO. They are established under the settlement/compensation mechanism following the use of the electricity transmission grid (ETG) for the transit of electricity between TSO operators from 35 countries that adhered to the mechanism implemented by ENTSO-E and were lower by 829 as compared to 2015.

Expenses with the technological system services

During 2016, the expenses with technological system services decreased by 76,625,240 compared to 2015.

Technological system services are purchased by the Company from producers with the aim of maintaining the level of operational safety of the NPS and the quality of electricity transmitted within the parameters provided in applicable technical rules.

Such services are contracted:

- in a regulated manner, based on Government Resolutions and ANRE Decisions;
- through competitive mechanisms.

In accordance with the provisions of GR no. 138/08.04.2013 on the adoption of certain measures for the safe delivery of electricity, between April 15, 2013 and July 1, 2015, the Company purchased technological system services as regulated by ANRE from SC Complexul Energetic Hunedoara SA, at at least 400 MW and from SC Complexul Energetic Oltenia SA at at least 600 MW. In accordance with GR no. 941/29.10.2014, the term set for enforcing the provisions of GR no. 138/2013, for SC Complexul Energetic Hunedoara SA, is extended until December 31, 2017.

In the period January 1 – March 31, 2016, the Company acquired technological system services (slow tertiary reserve) under a regulated regime, according to the provisions of GR no. 1019/30.12.2015 approving the „Winter calendar in the energy field ensuring the safe and stable operation of the NPS.

For the period July 1, 2015 – June 30, 2016, the technological system services was purchased under a regulated regime from SC Hidroelectrica SA (ANRE Decision no. 1377/26.06.2015 amended by ANRE Decision no. 1423/01.07.2015) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 859/08.04.2015).

Between July 1, 2016 and December 31, 2016 the technological system services were purchased under a regulated regime from SC Hidroelectrica SA (ANRE Decision no. 1035/22.06.2016) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 1034/22.06.2016).

CNTEE Transelectrica SA re-invoices the value of technological system services purchased from producers to electricity suppliers licensed by ANRE, which are the ultimate beneficiaries of such services.

Balancing Market Expenses

Balancing market expenses are incurred with notifications/actual deliveries of market participants, being entirely matched by the balancing market revenues. In 2016, they amounted to 814,079,670.

21. OTHER OPERATING EXPENSES

	2016	**2015**
Other third party services	72,954	72,139
Postage and telecommunications	1,748	2,419
Rent	10,840	11,258
Impairment of current assets	21,874	7,268
Impairment of non-current assets	16,830	536
Other	6,237	29,228
	130,483	**122,847**

In 2016, Other operating expenses decreased by 7,636 compared to 2015 mainly due to:
- decreases in certain categories of expenses, of which:
  - tax of special constructions, by 5,207, due to the decrease of the value of constructions following their revaluation as at December 31, 2015;
  - the revaluation of tangible and intangible expenses, by 14,295 – in 2015, the tangible and intangible assets were revalued;
  - expenses with provisions for other operating expenses, by 4,865, further to the setting in 2015 of provisions for the entire value of certain tangible and intangible assets (shares held in subsidiary ICEMENERG SA Bucharest which was de-registered, materials recovered from the Milenium building proposed for scrapping, the underwater cable project).
- increases in certain categories of expenses, of which:
  - expenses with delay increases, by 2,271, further to the registration of penalties for high efficiency cogeneration (RAAN by 1,091 and Electrocentrale Bucuresti by 1,171,179);
  - expenses with commodities, by 1,737, following the conclusion by subsidiaries of contracts for the recovery of waste resulting from the decommissioning/upgrading of stations;
- operating expenses with the impairment of current assets, by 16,452, following the registration of allowances for doubtful customers or customers in insolvency in 2016 (CE Hunedoara, CET Govora, Romenergy Industry, UGM Energy, etc.).

22. NET FINANCIAL RESULT

	2016	**2015**
Interest income	5,844	10,071
Foreign exchange gains	21,470	30,367
Other financial income	1,322	2,672
Total financial income	**28,676**	**43,110**
Interest expenses	24,382	28,772
Foreign exchange losses	22,727	38,537
Other financial expenses	1,411	-
Total financial expenses	**48,520**	**67,310**
Net financial result	**(19,844)**	**(24,200)**

The increase of the net result for foreign exchange differences in 2016 compared to 2015 was influences by the development of the exchange rate of the national currency compared to foreign currencies in which the Company has contracted bank loans to fund investment projects (Euro, Dollar, Japanese yen).

The exchange rate of the national currency as at December 31, 2016 compared to the one registered as at December 31, 2015 is as follows:

Currency	**31.12.2016**	**31.12.2015**
RON / Euro	4.5411	4.5245
RON / US Dollar	4.3033	4.1477
RON / Japanese Yen 100	3.6834	3.4453

The net financial result (loss) registered by the Company as at December 31, 2016 increased compared to 2015, due to the decrease of financial income (reduction of dividends received by subsidiary OPCOM) and the decrease of financial expenses.

23. THE LEGISLATIVE AND FISCAL FRAMEWORK

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

24. COMMITMENTS AND CONTINGENCIES

i) Commitments

As at December 31, 2016 and December 31, 2015, the Company had commitments amounting to 1.036.117 and 563,087 mainly representing ongoing contracts related to the investment program for the modernization and upgrading of the transmission grid. In the amount of 1.036.117.363 is also included the value of contract C57/2012 signed with SC SMART SA Branch, value for wich the investments of maintenance can not be defined.

ii) Land used by the Company

According to the Company policy, the financial statements include only the value of the land for which certificates attesting to the ownership titles have been obtained as at the date of the financial statements.

According to Law No. 99/1999, in case the Company obtains the title deeds for lands after the privatization, the land will be considered as contribution in kind of the State. These plots of lands are firstly recognized in other reserves. In this respect, the Company will increase the share capital in line with the value of the lands, and the beneficiary of this increase will be the Romanian State. In accordance with Art. 130 of Law 297/2004 regarding the capital market, "the increase in the share capital of a listed company on a regulated market will be made with the possibility for the other shareholders to maintain their percentage in the share capital of that company".

As the date of the issuance of these financial statements, the external legal opinion received by the management of the Company following the acquisition of legal services needed for the share capital increase states that in the absence of other changes in the legal framework, the general legal provisions applicable to the companies are contradictory with regards to the companies regulated by the privatization law. As reported to the steps undertaken by the Company for the share capital increase with the value of the land for which titles have been obtained, OPSPI has communicated to the Company that in their opinion, the share capital increase should be performed after the changes in the legal framework.

iii) Pending disputes

The management analyses the status of disputes in progress regularly and after consultation with its legal representatives considers the appropriateness of providing for or disclosing the amounts involved in the financial statements.

24. COMMITMENTS AND CONTINGENCIES (continued)

Taking into account the existing information, the management of the Company considers that there are no significant disputes in progress in which the Company is defendant, except for the following disputes:

- File no 3616/101/2014 is registered with the Mehedinti Tribunal, Administrative and Tax-related Disputes Section, having as its object "claims in amount of 1,090,831.70", in which the Company is defendant, and Autonomous Company for Nuclear Activities – RAAN is plaintiff.

The amount claimed represents penalties calculated by RAAN for the bonus due under the support scheme and withheld by the Company, in its capacity as Administrator of the support scheme, which applied the provisions of Art.17 paragraph 5 of ANRE President Order no. 116/2013 (see Note 9).

CNTEE Transelectrica SA filed final appeal against decision no. 843/05.11.2015 issued by the Craiova Court of Appeal – Civil Section II in the public session of 05.11.2015 in File no. 3616/101/2014, against Sentence no.127/2014 issued by Mehedinti Tribunal – Civil Section II Administrative and Tax-related Disputes in the public session of 10.10.2014 in File no. 3616/101/2014, as well as against Sentence no. 1/2015 issued by Mehedinti Tribunal – Civil Section II Administrative and Tax-related Disputes in the public session of 09.01.2015 in File no. 3616/101/2014, requesting the court of law, through its ruling, to admit the final appeal as filed, to quash the decisions and sentences challenged and remit the case to the competent jurisdiction for judgment, to acknowledge the observance of Arts. 1616 and 1617 of the Civil Code, and consequently, to acknowledge the lawful offset of the mutual liabilities and their discharge up to the limit of the lowest liability, namely the total amount claimed by the plaintiff in the application for legal action, to compel the respondent-plaintiff to pay the expenses incurred in such final appeal. The final appeal has been registered with the High Court of Cassation and Justice, which decided as follows in the stage of prior verification of the final appeal: admits in principle the final appeal filed by respondent-defendant CNTEE Transelectrica SA against Decision no. 843/2015 of November 5, 2015 filed by Craiova Court of Appeal – Civil Section II. Schedules a hearing to settle the final appeal on March 21, 2017.

In the period 2014-2015, the Company withheld the bonus due to RAAN under the support scheme, based on the provisions of ANRE regulations, namely Art.17 paragraph 5 of ANRE President Order no. 116/2013.

Under such circumstances, RAAN calculated penalties for the late collection of the due cogeneration bonus, in amount of 3,496,914, withheld by the Company on account of the receivables not received. The Company refused to pay the amount of 3,496,914 and was not registered as a liability under the support scheme.

- File no. 9089/101/2013/a138 is registered with Mehedinti Tribunal – Civil Section II Administrative and Tax-related Disputes, having as its object injunction, in which the Company acts as defendant, and the Autonomous Company for Nuclear Activities RAAN – debtor in insolvency – as plaintiff.

By Judgment no. 63/2016, the court ordered the defendant to continue to provide the electricity transmission service and the system service needed for carrying out the activity throughout the entire period of RAAN's judicial reorganization.

Against this judgment, Transelectrica filed a final appeal.

On 10.05.2016, the Craiova Court of Appeal delivered Judgment no. 457/10.05.2016, whereby it ordered as follows: "Rejects the exception of late submission of the appeal. Rejects the appeal as ungrounded. Final."

In addition, the settlement of the appeal filed by RAAN against the judgment whereby the bankruptcy procedure was initiated, forming the object of File no. 9089/101/2013/a137, registered with the Craiova Court of Appeal, was postponed for 31.05.2016, when the ruling remained pending.

By Decision no. 563/14.06.2016, the Craiova Court of Appeal – Civil Section II rejected the appeals filed against Intermediate Order no. 10/28.01.2016, delivered by Mehedinti Tribunal – Civil Section II Administrative and Tax-related Disputes.

- File no. 1284/101/2015 registered with the Mehedinti Tribunal – Civil Section II Administrative and Tax-related Disputes, having as its object "claims in amount of Lei 11,637,439.66", in which the Company acts as defendant, and the Autonomous Company for Nuclear Activities RAAN acts as plaintiff.

In its application for legal action, the plaintiff requested the court to order Transelectrica SA to pay RON 11,637,439.66.

On 22.05.2015, the Mehedinti Tribunal – Civil Section II Administrative and Tax-related Disputes delivered Judgment no. 41/2015, whereby it ordered: "Admits the exception of territorial lack of competence. Declines the competence to rule to the Bucharest Tribunal, Civil Section. Not subject to appeal". The file was registered with the Bucharest Tribunal – Civil Section VI under no. 24206/3/2015.

Plaintiff RAAN filed an application to change to portion of the claim, requesting the court to order Transelectrica SA to pay the increased amount of Lei 17,805,680.17.

At the hearing of October 16, 2015, the Bucharest Tribunal postponed the ruling for October 30, 2015, then for November 2, 2015 and then on November 3, 2015.

On 03.11.2015, the Bucharest Tribunal – Civil Section VI delivered Judgment no. 6075/2015, whereby it ordered as follows: "Admits the application, as filed. Orders the defendant to pay the amount of Lei 17,805,680.17 to the plaintiff, representing counter value of bonus and penalties. Rejects as ungrounded the application for settlement of trial expenses filed by the plaintiff. Subject to appeal within 30 days from communication. The appeal shall be filed at the Bucharest Tribunal – Civil Section VI."

The judgment was communicated on 04.07.2016, according to the incoming mail registration stamp of Transelectrica SA.

Appeal was filed against the judgment. In the Session minutes of 12.01.2017 issued in File no. 24206/3/2015, the Bucharest Court of Appeal ordered the suspension of the appeal until the final settlement of File no. 9089/101/2013/a152 registered with the Mehedinți Tribunal, according to Art. 413 para.1 item 1 of the New Civil Procedure Code. Subject to final appeal throughout the stay period.

The Bucharest Court of Appeal decided to suspend the settlement of the case, holding that its settlement depended on the judgment issued in File no. 9089/101/2013/a 152 registered with the High Court of Cassation and Justice, having as its object challenge to the additional table of receivables of RAAN SA.

- File no. 26024/3/2015 was registered with the Bucharest Tribunal – Civil Section VI, having as its object "claims", in which the Company acts as defendant, and the Autonomous Company for Nuclear Activities RAAN acts as plaintiff.

In its application for legal action, the plaintiff requested the court to order Transelectrica SA to pay Lei 10,274,679.11.

At the hearing of 13.06.2016, the court postponed the ruling for 27.06.2016, when, by a session minutes, it ordered the resumption of the case to discuss the production of additional evidence to determine the mutual debts and the up-to-date compensation invoked by the plaintiff, and set the following hearing for 28.11.2016.

In the session minutes of 28.11.2016, the Bucharest Tribunal stayed the case according to Art. 413 (1) of the New Civil Procedure Code by reference to Art. 411(1) of the New Civil Procedure Code. Subject to final appeal throughout the stay period.

The Bucharest Tribunal decided to stay the case, holding that its settlement depended on the judgment issued in File no. 3014/2/2014 registered with the High Court of Cassation and Justice, having as its object final appeal – annulment of Decision no. 743/2014 of the ANRE President.

- File no. 3694/3/2016 was registered with the Bucharest Tribunal – Civil Section VI, having as its object "claims", in which the Company acts as defendant, and the Autonomous Company for Nuclear Activities RAAN acts as plaintiff.

In its application for legal action, the plaintiff requested the court to order Transelectrica SA to pay Lei 15,698,721.80.

At the hearing of 09.06.2016, the court postponed the ruling for 23.06.2016 and then for 30.06.2016, when, by a session minutes, it ordered the resumption of the case, holding that the parties needed to bring new clarifications. The Court scheduled the following hearing on 17.08.2016, and then on 13.10.2016.

According to Art. 413 para. 1 item 1 of the Civil Procedure Code, at the hearing of 20.10.2016 the Bucharest Tribunal decided to stay the case until the final settlement of File no. 3014/2/2014. Subject to final appeal throughout the stay period.

- File no. 9089/101/2013/a140 was registered with the Mehedinti Tribunal – Civil Section II Administrative and Tax-related Disputes, having as its object "claims in amount of Lei 86,513,430.67", in which the Company acts as plaintiff, and the Autonomous Company for Nuclear Activities RAAN acts as defendant.

In its application for legal action, Transelectrica SA requested the court to order defendant RAAN to pay Lei 86,513,430.67.

On 19.05.2016, the Mehedinti Tribunal – Civil Section II Administrative and Tax-related Disputes delivered a session minutes, in which it ordered as follows: "According to Art. 413 item. 1 of the Civil Procedure Code, it orders the staying of the case until the settlement of File no. 3014/2/2014 registered with the High Court of Cassation and Justice. Subject to final appeal throughout the stay period. Delivered today, May 19, 2016 in open court."

• In the report of 18.09.2013 issued by the Mehedinti Tribunal in File no. 9089/101/2013, the court ordered the initiation of the general insolvency procedure against debtor Autonomous Company for Nuclear Activities R.A. (RAAN).

In Judgment no. 387/20.03.2014, the Mehedinti Tribunal confirmed by reorganization plan of debtor Autonomous Company for Nuclear Activities, as proposed by administrator Tudor&Asociatii SPRL and voted in the General Meeting of Creditors according to the Minutes of 28.02.2014.

In intermediate order no. 10/28.01.2016, issued by the Mehedinti Tribunal – Civil Section II, Administrative and Tax-related Disputes, the syndic judge ordered the imitation of the bankruptcy procedure, pursuant to Art. 107 para. 1 letter C of Law no. 85/2006, the debtor's winding up and lifting of the debtor's right of management.

By Decision no. 563/14.06.2016, the Craiova Court of Appeal – Civil Section II rejected the appeals filed against Intermediate Order no. 10/28.01.2016 delivered by the Mehedinti Tribunal – Civil Section II, Administrative and Tax-related Disputes.

In the Session Minutes of 30.06.2016, the Mehedinti Tribunal – Civil Section II, Administrative and Tax-related Disputes set the new procedural deadlines as follows: "Schedules the deadline for submitting the claims arising during the procedure for 13.08.2016. Schedules the deadline for checking the claims arising during the procedure, preparing, displaying and communicating the additional table of receivables for 29.09.2016. Schedules the deadline for submitting the challenges against the claims arising during the procedure for October 9, 2016 and for settling the challenges against the claims arising during the procedure for October 20, 2016. Schedules the deadline for preparing and displaying the final consolidated table for 10.11.2016."

When filing the claim in RAAN's bankruptcy procedure, Transelectrica SA may invoke the provisions of Art. 52 of Law no. 85/2006, applicable to RAAN's bankruptcy procedure, which are transposed in Art. 90 of Law no. 85/2014 on the creditor's right to invoke the offset of its receivable against the debtor's receivable against it, when the conditions provided by the law in the field of legal offset are met upon the initiation of the procedure.

Transelectrica SA was listed in the table of debtor RAAN with RON 11,264,777.30 in the category of receivables arising from the continuation of the debtor's business. The amount claimed by us was RON 89,360,986.06. The amount of RON 78,096,208.76 was not listed in the preliminary table of receivables on grounds that "it is not listed as due in the accounting records of RAAN." Moreover, the trustee in bankruptcy held that the request to list the amount of RON 78,096,208.76 in the table is submitted late, as it related to the period 2011 – 2013, and therefore the claim should have been filed upon the initiation of the insolvency procedure, i.e., 18.09.2013. We have filed challenge against the Table. The Mehedinti Tribunal admitted the evidence by accounting expert appraisal. The following hearing is scheduled for 30.03.2017.

• Following an inspection conducted in 2013, the Court of Accounts ordered the Company to take measures as a result of deficiencies found further to such inspection. The decision and minutes issued by the Court of Accounts were challenged at the Bucharest Court of Appeal, setting up File no. 1658/2/2014.

In the session of 20.01.2016, the court postponed the case, allowing the accounting expert appraiser to issue a stand point on the plaintiff's objections to the expert appraisal report prepared and allowing the technical expert to execute the expert appraisal. On 29.06.2016 the court postponed the case to allow the completion of the technical expert appraisal report. The following hearing was scheduled for 26.10.2016. Until the date of this report, no changes occurred.

At the hearing of 08.02.2017, the objections to the expert appraisal report were communicated. The next court hearing is schedules for 22.03.2017.

• CNTEE Transelectrica SA filed a complaint against ANRE President Order no. 51/26.06.2014 registered with ANRE under no. 47714/04.08.2014 and a challenge at the Bucharest Court of Appeal, which forms the object of File no. 4921/2/2014, whereby it requests either the change of the Order mentioned above, or the issuance of a new order recalculating the RRR value at 9.87% (recalculated by a (β) ratio of 1.0359, according to Transelectrica's internal analyses) or, if such request is rejected, using the same percentage of 8.52% set by ANRE for 2013 and S1 2014.

On 26.06.2014, ANRE Order no. 51 was issued, published in Official Journal no. 474/27.06.2014, approving the average transmission tariff, the system services tariff and the zonal tariffs for the transmission service, charged by the National Electricity Transmission Company "Transelectrica" – SA and repealing Annex no. 1 to Order no. 96/2013 of the ANRE President approving the average transmission tariff, the system services tariff, the zonal tariffs for the transmission service and the reactive electricity tariffs charged by entities operating in the field of electricity.

The values factored in by ANRE when calculating the regulatory rate of return (RRR[1]), as per the Methodology laying down the electricity transmission tariffs approved by ANRE Order no. 53/ 2013 ("the Methodology"), generated a RRR value of 7.7%.

CNTEE Transelectrica SA considers that the enforcement of Art. 51 of the Methodology by setting the Beta (β) parameter at 0.432 will financially prejudice the Company by decreasing the return by an estimated RON 138.4 mil[3], which will seriously impact the Company's financial interests.

At the hearing of 09.02.2016, the court of law admitted the evidence by accounting expert appraisal – financial investments and other security issuers, postponed the debate on the evidence by technical expert appraisal – electricity and energy, after the submission of the evidence by accounting expert appraisal – financial investments and other security issuers.

At the hearings of 25.03.2016, 22.04.2016, 10.06.2016 and 03.03.2017 the court postponed the settlement of the case for lack of technical expert appraisal report. The following court hearing was scheduled on 21.04.2017.

- On March 4, 2014, the European Commission communicated that it applied a fine of EUR 1,031,000 on Subsidiary S.C. OPCOM S.A. for abusing its dominant position on the Romanian market by facilitating electricity spot trading, in breach of EU antitrust rules. The Company was included in the trial as parent company of Subsidiary S.C. OPCOM S.A., being jointly liable for the payment of the fine.

The General Meeting of Shareholders of Subsidiary SC OPCOM SA decided on 10.06.2014 to pay the entire fine of EUR 1,031,000 applied by the General Directorate Competition – European Commission for breach of Art. 102 of the Treaty on the Functioning of the European Union, according to the Decision in the antitrust case AT 39984. Subsidiary SC OPCOM SA paid the entire fine imposed by the European Commission.

On 24.11.2014, Subsidiary SC OPCOM SA sued CNTEE Transelectrica SA, compelling it to pay EUR 582,086.31 (RON 2,585,161.72 at the NBR exchange rate of 24.11.2014), representing the amount paid by it as fine, out of the total amount of the fine of EUR 1,031,000.

Subsidiary SC OPCOM SA has also requested the court of law to compel the Company to pay RON 84,867.67 as legal interest for the period 11.06.2014 – 24.11.2014, to which court expenses in amount of 37,828.08 are added.

The action filed by Subsidiary SC OPCOM SA forms the object of File no. 40814/3/2014 on the dockets of the Bucharest Tribunal, Civil Section VI, whose object consists of claims, in the matter of professional litigation. CNTEE Transelectrica SA filed a statement of defense against the legal action in this case, invoking exceptions and defense on the merits regarding the ungrounded nature and unlawfulness of the action.

On 24.07.2015, the Bucharest Tribunal issued ruling no. 4275/2015, whereby it ordered as follows: „Admits the application for legal action filed by plaintiff Electricity and Natural Gas Market Operator – OPCOM S.A. against defendant National Power Grid Company Transelectrica S.A. It compels the defendant to pay the plaintiff the amount of EUR 582,086.31, representing the amount paid by the plaintiff on behalf of the defendant of the value of the fine of EUR 1,031,000 imposed by Decision of the European Commission on 05.03.2014 in case AT.39984, and the legal interest, corresponding to EUR 582,086.31, calculated from 11.06.2014 until the actual payment date. It compels the defendant to pay the plaintiff RON 37,828.08 as court expenses. Subject to appeal within 30 days from communication. The application for appeal shall be submitted to the Bucharest Tribunal – Civil Section VI."

[1] *RRR – Regulatory Rate of Return is found in the specialized literature as WACC – Weighted Average Cost of Capital, the formula of the two ratios being similar: RRR = WACC = CCP + Kp/(1 – T) + CCI x Ki*
[2] *Which generated the decrease of the RRR to 7.7 %*
[3] *Calculated by comparison to an RRR of 8.52%*

24. COMMITMENTS AND CONTINGENCIES (continued)

Transelectrica SA filed an appeal against Judgment no. 4275/2015 issued in the file mentioned above, which was registered with the Bucharest Court of Appeal. The Court of Appeal ruled as follows: Admits the appeal. Changes the entire civil judgment appealed, namely it rejects as ungrounded the application for legal action. Orders the plaintiff-respondent to pay the trial expenses in amount of 16,129 to the defendant-appellant, representing legal stamp duty. Subject to final appeal within 30 days from communication. Delivered in open court today, 10.10.2016. Document: Resolution 1517/10.10.2016.

OPCOM S.A. filed a final appeal. The case is currently subject to the filtering procedure. The court hearing is to be scheduled.

The Company registered in 2014 a provision of RON 2,670,029 for the litigation with Subsidiary SC OPCOM SA.

- In 2013, Conaid Company SRL sued CNTEE Transelectrica SA for the unjustified denial to sign an addendum to the connection contract or a new connection contract, and claimed compensation for the expenses incurred until that moment of RON 17,419,508 thousand and unrealized profits for the period 2013-2033 in amount of EUR 722,756,000. Until now, the Company did not conclude an addendum to the connection contract as the suspensive conditions included in the contract were not met by Conaid Company SRL. A new connection contract should have been signed by March 11, 2014 when the related connection technical authorization expired. At the date of these financial statements, the amounts claimed by Conaid Company SRL were considered as contingent liabilities as it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation cannot be estimated reliably. File no. 5302/2/2013 is registered with the High Court of Cassation and Justice, Administrative and Tax-related Disputes Section, whose object is obligation to issue administrative deed, stage of the trial - final appeal, the hearing is scheduled for 09.12.2015. At this hearing, the High Court of Cassation and Justice admitted the final appeals, in principle, and scheduled for April 8, 2016 the hearing for the settlement on the merits, Panel 4, by subpoenaing the parties. The settlement of the case was postponed for 17.06.2016, when the court postponed the ruling for 29.06.2016, when it delivered Decision no. 2148/2016, in which it ordered as follows: "Rejects the exceptions invoked by appellant-plaintiff S.C. Conaid Company S.R.L., by administrator RVA Insolvency Specialists SPRL and appellant-defendant National Electricity Transmission Company Transelectrica S.A. Admits the final appeal filed by defendant National Electricity Transmission Company Transelectrica S.A. against the session minutes of February 18, 2014 and Civil Judgment no. 1866 of June 11, 2014, delivered by the Bucharest Court of Appeal – Section VIII Administrative and Tax-related Disputes. Quashes the minutes challenged and the judgment in part and sends the case back to Bucharest Tribunal – Civil Section VI to settle the plaintiff's action against National Electricity Transmission Company Transelectrica S.A. Maintains the other orders of the judgment as regards the plaintiff's action against the National Energy Regulatory Agency. Rejects the final appeals filed by plaintiff S.C. Conaid Company S.R.L., by administrator RVA Insolvency Specialists SPRL and intervener S.C. Duro Felguera S.A. against Civil Judgment no. 1866 of June 11, 2014, delivered by the Bucharest Court of Appeal – Section VIII Administrative and Tax-related Disputes. Rejects the final appeal filed by defendant National Electricity Transmission Company Transelectrica S.A. against the session minutes of March 25, 2014, delivered by the Bucharest Court of Appeal – Section VIII Administrative and Tax-related Disputes. Final. Issued in open court, today, June 29, 2016". Until the date hereof, the High Court of Cassation and Justice did not draw up the civil judgment delivered on 29.06.2016. Therefore, File no. 5302/2/2013 has not been sent for judgment to the Bucharest Tribunal – Civil Section VI.

- The Company is involved in significant disputes, as plaintiff, mainly for recovering receivables (ex: Eco Energy SRL, Petprod SRL, Total Electric Oltenia SA, Arcelormittal Galati SA, Romanian Autonomous Company for Nuclear Activities, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL). The Company recorded a provision for customers and other receivables in litigation and bankruptcy clients. The Company was also acting as plaintiff in a dispute with ANAF as disclosed in Note 8.

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

iv) Guarantees

In accordance with the License no. 161/2000 revised by ANRE Decision no. 802/18.05.2016 regarding the supply of electricity transmission and system services and the administration of the balancing market, the Company has to establish and maintain a financial guarantee in amount of 1% of the turnover related to the licensed activities. This enables the Company to continue its licensed activities, considering the 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 facility for issuance of bank letters of guarantee with BRD - Groupe Societe Generale SA, the value of which is 27,665,218 as at December 31, 2016.

On December 30, 2016 the Company concluded a loan contract for issuance of bank letters of guarantee with EximBank SA in amount of 29,422 valid between 01.01.2017 and 31.12.2017.

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

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

Guarantees received

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

As at December 31, 2016 and December 31, 2015 guarantees are as follows:

	2016	**2015**
Guarantees granted, of which:	**461,879**	**361,177**
- letters of guarantee issued – production	36,325	36,145
- letters of guarantee issued – investments	238,617	325,005
- other guarantees granted	186,936	27
Guarantees received, of which:	**502,122**	**446,216**
- letters of guarantee received – production	220,879	158,926
- letters of guarantee received – investments	233,729	239,771
- other guarantees received	47,513	47,519

v) Revaluation reserves as at December 31, 2016

As at December 31, 2016, revaluation reserves are in amount of RON 586,619,248 (December 31, 2015: 645,753,453).

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

vi) Tariff for energy transmission and system services

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

24. COMMITMENTS AND CONTINGENCIES (continued)

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

The current regulatory period lasts five years (July 1, 2014 – June 30, 2019), and comprises five tariff years (the tariff year begins on July 1 and lasts for 12 months). Thus, 2016 was the year of transition from the second tariff year to the third tariff year within the current regulatory period (the second tariff year ended June 30, 2016, the third tariff year began July 1, 2016). For 2016, the tariffs for transmission and system services were calculated according to the provisions of ANRE Orders nos. 53/2013 and 87/2013, as subsequently amended. For S1 2016, tariffs for the transmission and system services were approved by ANRE Orders nos. 89/2015 and 93/2015 and by ANRE Order no. 27/2016 for S2 2016.

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

According to ANRE Order no. 87/2013 approving the Methodology for determining the tariffs for system services, the competent authority determined the gains obtained by the transmission and system operator through an efficient management of technological system services within a tariff period and allocates 80% thereof to users (gain sharing mechanism).

The tariffs for the transmission of electricity and system services are adjusted annually by the total corrections resulting from the previous tariff period's corrections (actual data for 8 months and estimated data for 4 months) and the corrections of the second last tariff period (actual data).

25. GROUP STRUCTURE

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

Entity	Country of Origin	31 December 2016 % of total shares	31 December 2015 % of total shares
SMART SA	Romania	70	70
TELETRANS SA	Romania	100	100

SC SMART SA

SC SMART SA, with registered office at B-dul Magheru nr. 33, sector 1, Bucharest, and head office located at the work point in Calea Floreasca nr. 246 C, "Sky Tower" Building, et. 20, sector 1 Bucharest, has as main activities the provision of maintenance services for the transmission – dispatch system, It was set up by Romanian Government Resolution no. 710/ July 19, 2001 on November 1, 2001. The share capital as of December 31, 2016 was in amount of 55,036,300, of which 38,528,600 subscribed and fully paid in by the Company.

By Resolution no. 14/10.12.2014, the Extraordinary General Meeting of Shareholders of SC Smart SA approved the share capital increase by in-kind contribution with the lands for which the certificate attesting to the ownership title was obtained.

On December 30, 2014, the Trade Registry Office attached to the Bucharest Tribunal settled the application to register the share capital increase of SC Smart SA and, consequently, as at December 31, 2015 and December 31, 2016 the shareholding of SC Smart SA was the following:

- CNTEE Transelectrica SA - shares 3,852,860
  - participation in profit and loss: 70.005%
- Romanian State through the General Secretariat of the Government - shares 1,650,770
  - participation in profit and loss: 29.994%

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

*) Currently, there is a dispute pending – File no. 32675/3/2015 whose object is the annulment of Nominee Decision no. 154954/30.12.2014, issued in File no. 449314/23.12.2014, based on which the Trade Registry Office attached to the Bucharest Tribunal registered the increase of the share capital of Subsidiary SC Smart SA by in-kind contribution and amendment of the Constitutive Act according to Decision no. 12375/22.12.2014 of the President of the Board of Directors of the subsidiary and Decision no. 19/22.12.2014 of the Board of Directors. Also, the Company requested the competent court of law to annul the two above-mentioned decisions and suspend the enforcement of the documents, whose annulment is requested until the settlement of the action filed.

The purpose of the share capital increase was to enforce the provisions of the privatization legislation, namely the obligation to increase the share capital by the value of the lands owned by Subsidiary SC Smart SA, for which the Subsidiary had obtained ownership titles, by issuing shares in favor of the Romanian State. The shareholding of Subsidiary SC Smart SA, as it was registered with the Trade Registry based on Decision of Appointed Person no. 154954/30.12.2014 is as follows:

-CNTEE Transelectrica SA	70,005% - 3,852,860 shares;
-The Romanian State through the Secretariat General of the Government	29,994% - 1,650,770 shares.

CNTEE Transelectrica SA filed an application for injunction (requesting the suspension of the documents whereby the share capital was increased), which forms the object of file no. 13987/3/2015 registered with the Bucharest Tribunal – Civil Section VI.

On 15.06.2015, the Bucharest Tribunal issued Ruling no. 3401/2015, whereby it pronounced as follows: "Rejects as ungrounded the exception of the lack of legal capacity to stand trial of the Romanian State through the Secretariat General of the Government. Rejects as ungrounded the application for legal action filed by plaintiff CN Transelectrica SA against defendants Subsidiary Company for Maintenance of the Electricity Transmission Grid Smart SA, The Romanian State through the Secretariat General of the Government and the National Trade Registry Office attached to the Bucharest Tribunal. Subject to appeal within 5 days from issuance. The application for appeal shall be filed with the Bucharest Tribunal - Civil Section VI, according to Art. 471 paragraph 1 of the Civil Procedure Code. Issued in public session today, June 15, 2015."

CNTEE Transelectrica SA filed appeal and the file was registered with the Bucharest Court of Appeal – Civil Section VI. The court hearing was scheduled for 19.08.2015. The Bucharest Court of Appeal dismissed the appeal as ungrounded, by decision 1277/21.09.2015, final.

In addition, CNTEE Transelectrica SA filed complaint against the resolution of the Director of the Bucharest Trade Registry Office and the documents issued by Subsidiary SC Smart SA to increase the share capital, which forms the object of File no. 14001/3/2015 registered with the Bucharest Tribunal – Civil Section VI.

In file no. 14001/3/2015, through the session report of 07.09.2015 issued by the Bucharest Tribunal – Civil Section VI, the court ordered the separation of claims 2 and 3 of the application for legal action filed by the Company, and a new file was created, File no. 32675/3/2015, whose court hearing was scheduled for 02.11.2015.

Following Transelectrica's request to stay the proceedings in File no. 14001/3/2015 regarding the Company's request to annul Decision of Appointed Person no. 154954/30.12.2014, issued in File no. 449314/23.12.2014, the National Trade Registry Office – Trade Registry Office attached to the Bucharest Tribunal, filed pursuant to Art. 6 paragraph (3) of GEO 116/2009, since the case may only be settled after the settlement of the complaint filed by Transelectrica SA against Resolution no. 19/22.12.2014 of the Board of Directors of Subsidiary Company for Maintenance of the Electricity Transmission Grid Smart SA "Smart" – S.A. and Decision no. 12375/22.12.2014 of the President of the Board of Directors of Subsidiary Company for Maintenance of the Electricity Transmission Grid "Smart" – S.A., the court of law pronounced as follows in the session report of 19.10.2015: "Pursuant to Art. 413 paragraph 1 item 2 of the Civil Procedure Code, orders the staying of the settlement of the application for legal action filed by plaintiff Transelectrica against defendants Subsidiary Company for Maintenance of the Electricity Transmission Grid SMART SA, the Romanian State and the National Trade Registry Office, until the final settlement of the case forming the object of File no. 32675/ 3/ 2015 registered with the Bucharest Tribunal – Civil Section VI. Subject to final appeal throughout the entire staying period. The application for final appeal shall be filed with the Bucharest Tribunal – Civil Section VI. Issued in public session today, October 19, 2015."

In file no. 32675/3/2015, through the session report of 07.09.2015, issued by the Bucharest Tribunal – Civil Section VI, the court of law ordered the separation of claims 2 and 3 of the application for legal action filed by the Company (complaint filed by Transelectrica SA against Resolution no. 19/22.12.2014 of the Board of Directors of Subsidiary Company for Maintenance of the Electricity Transmission Grid "Smart" – S.A. and Decision no. 12375/22.12.2014 of the President of the Board of Directors of Subsidiary Company for Maintenance of the Electricity Transmission Grid "Smart" – S.A.). At the court hearing of 02.11.2015 the court ruling remained pending and the court of law postponed it to 16.11.2015.

The Bucharest Tribunal – Civil Section VI issued Civil Sentence no. 6468/16.11.2015, whereby it pronounced as follows: "Admits the exception of inadmissibility. Rejects as inadmissible the application for legal action filed by plaintiff Transelectrica against defendants Subsidiary Company for Maintenance of the Electricity Transmission Grid SMART SA, the Romanian State and the National Trade Registry Office. Subject to appeal within 30 days from communication. The application for appeal shall be submitted to the Bucharest Tribunal Civil Section VI. Issued in public session today, November 16, 2015".

CNTEE Transelectrica SA filed appeal, which was registered with the Bucharest Court of Appeal. The file is subject to the preliminary procedure and a court hearing has not been scheduled.

SC TELETRANS SA

SC TELETRANS SA, with registered office at B-dul Hristo-Botev nr. 16 – 18, sector 3, Bucharest has as main activities process and management IT maintenance services, telecommunication and IT specific services in the ETG, telephony and data transmission. It was set up as per Resolution no. 3/2002 of the General Meeting of Shareholders. The share capital as of December 31, 2016 was in amount of 6,874 subscribed and fully paid in.

26. REMUNERATION OF COMPANY'S MANAGEMENT

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

	2016	**2015**
Short-term employee benefits	10,269	10,077
Other long-term benefits	267	213
Members of the Management Board and the Supervisory Board		
Fixed component	1,566	1,538
Variable component	2,013	51
Total	**14,116**	**36,583**

In 2013, the mandate of 4 years for the members of the Supervisory Board and the Management board was approved. The General Meeting of Shareholders on November 6, 2013 approved the mandate of the members of the Supervisory Board and their variable remuneration level starting with the working day immediately following the date of approval of the Administration Plan of CNTEE Transelectrica SA for the period 2013-2017 prepared by the Supervisory Board, i.e., from 01.10.2013.

OGMS Resolution no. 1 of 23.03.2015 approved under items 3.3 and 3.4 the setting of the general caps of the fixed remuneration granted to the members of the Supervisory Board of CNTEE "Transelectrica" – S.A. and the general caps of the variable component of their remunerations.

As at December 31, 2016 and December 31, 2015 the number of OAVTs granted to the members of Supervisory Board of Transelectrica is as follows:

Package	**No. Of OAVTs**	**Granting date**	**Due date**	**Weighted average price for the month prior to granting as per the mandate contract**
Package 1 of 15 November 2013	644.545	15.11.2013	15.11.2016	13,1484 (lei/share)
Package 2 of 15 November 2014	571.561	15.11.2014	15.11.2017	26,6040 (lei/share)
Package 3 of 15 November 2015	355.640	15.11.2015	15.11.2018	25,9986 (lei/share)
Package 4 of 15 November 2016	379.767	15.11.2016	15.11.2019	29,0861 (lei/share)

26. REMUNERATION OF COMPANY'S MANAGEMENT (continued)

As at December 31, 2016 and December 31, 2015 the number of OAVTs granted to the members of the Management Board of Transelectrica is as follows:

Package	**No. Of OAVTs**	**Granting date**	**Due date**	**Weighted average price for the month prior to granting as per the mandate contract**
Package 1 of 15 May 2014	567,978	15.05.2014[4]	15.11.2016	13,1484 lei/share
Package 2 of 15 November 2014	657.973	15.11.2014	15.11.2017	26,6040 lei/share
Package 3 of 15 November 2015	522.418	15.11.2015	15.11.2015	25,9986 lei/share
Package 4 of 15 November 2016	466.005	15.11.2016	15.11.2019	29,0861 lei/share

Details of the valuation model of OAVTs:

	Package 1	**Package 2**	**Package 3**	**Package 4**
Availability	3 years	3 years	3 years	3 years
Way of settlement		1/3 from the package	every year	
Weighted average price for the prior month	13,1484 lei/ share	26,6040 lei/ share	25,9986 lei/ share	29,0861 lei/ share

Thus, as at December 31, 2016, the Group recorded a provision in amount of 42,355 (26,293 as at December 31, 2015) for the annual variable component due to the members of the Management Board and the Supervisory Board for the fair value of the virtual shares of the Company as at the end of the financial year.

27. NON-CONTROLLING INTERESTS

	December 31, 2016	**December 31, 2015**
Balance at the beginning of the year	11,645	5,210
Share of profit for the year	(6,161)	(2,251)
Additional non-controlling interests	-	8,686
Balance at the end of the year	**5,484**	**11,645**

28. FINANCIAL INSTRUMENTS

Financial risk management

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

The Group does not have formal arrangements to mitigate financial risks. Despite the fact that no formal arrangements are in place, the financial risks are monitored by management considering the financial needs of the Group in order to make sure that the opportunities and threats are matched efficiently.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Interest rate risk

The Group's operating cash flows are affected mainly by changes in interest rates, due to the foreign currency long-term

[4] As regards the members of the Management Board appointed as of 15.11.2014, the variable component of the remuneration formed of OAVTs was granted to them on the appointment date.

borrowings with variable interest rates contracted from external credit institutions. The Group has significant long-term borrowings with variable interest rates that expose it to significant cash flow risk.

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

	December 31, 2016	December 31, 2015
Fixed rate instruments		
Financial liabilities	478,649	548,153
Variable rate instruments		
Financial liabilities	178,829	262,543

28. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis of interest rate

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

	Loss 2016	Loss 2015
RON	(44)	(95)
EUR	(1,325)	(1,244)
USD	(21)	(182)
Total	**(1,390)**	**(1,521)**

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

	Profit 2016	Profit 2015
RON	44	95
EUR	1,325	1,244
USD	21	182
Total	**1,390**	**1,521**

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

Foreign exchange risk

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

The Group's functional currency is RON. The Group is exposed to foreign currency risk on cash and cash equivalents, purchases and borrowings that are denominated in a currency other than the functional currency. The currencies giving rise to this risk are primarily EUR, USD and Japanese Yen (JPY). The long-term loans and other liabilities denominated in foreign currencies are then retranslated at the prevailing exchange rate at each balance sheet date, as communicated by Romanian National Bank. The resulting differences are charged or credited to the profit or loss, but do not affect cash flows until the settlement of the amount.

The Group's exposure to foreign currency risk, expressed in RON, was as follows:

	Value	RON	EUR	USD	JPY
31 December 2016					
Monetary assets					
Cash and cash equivalents	960,489	920,125	40,327	38	-
Other financial assets	135,090	135,090	-	-	-
Receivables	874,107	830,854	43,253	-	-
Gross exposure	**1,969,686**	**1,886,068**	**83,580**	**38**	**-**
Monetary liabilities					
Suppliers and other liabilities	889,349	808,560	80,789	-	-
Borrowings	657,478	217,343	428,798	11,337	-
Gross exposure	**1,546,827**	**1,025,903**	**509,587**	**11,337**	**-**
Net balance sheet exposure	**422,859**	**860,165**	**(426,007)**	**11,299**	**-**

	Value	RON	EUR	USD	JPY
31 December 2015					
Monetary assets					
Cash and cash equivalents	1,002,829	972,002	30,788	28	11
Other financial assets	70,085	70,085	-	-	-
Receivables	729,388	725,764	3,624	-	-
Gross exposure	**1,802,301**	**1,767,851**	**34,412**	**28**	**11**
Monetary liabilities					
Suppliers and other liabilities	788,200	693,150	95,050	-	-
Borrowings	815,284	220,304	567,599	18,268	9,112
Gross exposure	**1,603,484**	**913,454**	**662,649**	**18,268**	**9,112**
Net balance sheet exposure	**198,817**	**854,397**	**(628,237)**	**(18,240)**	**(9,101)**

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

The following significant exchange rates were used:

	Average rate		Reporting date spot rate	
	2016	**2015**	**December 31, 2016**	**December 31, 2015**
RON/ EURO	4.4908	4.4450	4.5411	4.5245
RON/ USD	4.0592	4.0057	4.3033	4.1477
RON/ 100 JPY	3.7398	3.3107	3.6834	3.4453

Sensitivity analysis of exchange rate risk

A 10 percent strengthening of the RON against the following currencies at December 31, 2016 and December 31, 2015 would have increased the gross profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit 2016	Profit 2015
EUR	42,601	62,824
USD	1,130	1,824
JPY	-	910
Total	**43,731**	**65,558**

A 10 percent weakening of the RON against the following currencies at December 31, 2016 and December 31, 2015 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 2016	Loss 2015
EUR	(42,601)	(62,824)
USD	(1,130)	(1,824)
JPY	-	(910)
Total	**(43,731)**	**(65,558)**

28. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from the Group's receivables from customers and cash and cash equivalents.

The treatment of counterparty risk is based on internal and external success factors of the Group. External factors of success that are systematically reducing the risk are: de-centralization of the energy sector where production, transmission, distribution and supply are distinct activities, and the interface for the customer is the supplier, the trading of energy on the Romanian market on two market segments: regulated market and competitive market. Internal factors of success in the treatment of counterparty risk include the diversification of customer portfolio and diversification of the number of services provided on the electricity market.

Financial assets, which potentially subject the Group to collection risk, consist principally of trade receivables and cash and cash equivalents. The Group applied a series of policies to make sure that the services are rendered to customers that can provide a proper collection, by including in the commercial contracts their obligation to establish financial guarantees. The carrying amount of accounts receivable, net of impairment allowances, represents the maximum amount exposed to collection risk.

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

Cash is placed with financial institutions, which are considered to have minimal risk of default. The deposits are held at Banca Comercială Română, BRD – Groupe Societe Generale, Garanti Bank, Banca Transilvania, Exim Bank, ING Bank and CITI Bank.

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

	December 31, 2016	December 31, 2015
Financial assets		
Net trade receivables	774,993	600,669
Cash and cash equivalents	960,489	1,002,829
Other net receivables	89,339	128,699
Other financial assets	135,090	70,085
	1,959,911	**1,802,282**

The age of trade receivables at the reporting date was:

	Gross value as at December 31, 2016	Provision as at December 31, 2016	Gross value as at December 31, 2015	Provision as at December 31, 2015
Not past due	648,510	5,550	497,502	1,544
Past due 1 – 30 days	13,257	-	6,811	124
Past due 31 – 90 days	6,222	-	1,703	313
Past due 90 – 180 days	1,152	359	11,094	10,233
Past due 180 –270 days	27,315	7,725	15,468	1,490
Past due 270 –365 days	6,256	-	6,890	2,392
More than one year	175,662	89,746	150,154	73,215
Total	**878,374**	**103,381**	**689,981**	**89,312**

28. FINANCIAL INSTRUMENTS (continued)

The age of other receivables at the reporting date was:

	Gross value as at December 31, 2016	Provision as at December 31, 2016	Gross value as at December 31, 2015	Provision as at December 31, 2015
Not past due	68,799	2,501	113,450	6,095
Past due 1 – 30 days	16	9	6,430	396
Past due 31 – 90 days	57	30	1,270	-
Past due 90 – 180 days	6,064	4,791	2,425	19
Past due 180 –270 days	2,317	669	4,608	2,504
Past due 270 –365 days	3,160	595	5,796	145
More than one year	101,201	83,678	81,168	77,270
Total	**181,613**	**92,274**	**215,148**	**86,429**

The Group recorded allowances for trade and other receivables in litigation and for insolvency clients. The biggest amounts recorded during 2015 were for Petprod SA (29,242,364), SC Eco Energy SRL (24,736,066), SC Total Electric Oltenia (14,185,577), Romenergy Industry (9,989,440) and the Romanian Authority for Nuclear Activities (7,976,099) (see Note 8).

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

	December 31, 2016	December 31, 2015
Balance as at January 1	**89,312**	**87,246**
Recognition of provisions	22,607	24,287
Provision write-off	(8,538)	(22,221)
Balance at the end of the year	**103,381**	**89,312**

The movement in provisions for other receivables in respect of other receivables during the year is as follows:

	December 31, 2016	December 31, 2015
Balance as at January 1	**86,429**	**81,529**
Recognition of provisions	7,501	9,329
Provision write-off	(1,656)	(4,429)
Balance at the end of the year	**92,274**	**86,429**

28. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

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

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

	December 31, 2016	December 31, 2015
Assets		
Monetary assets in RON	1,886,068	1,767,851
Monetary assets in foreign currency	83,618	34,451
	1,969,686	**1,802,301**
Liabilities		
Monetary liabilities in RON	(1,025,903)	(904,761)
Monetary liabilities in foreign currency	(520,924)	(690,029)
	(1,546,827)	**(1,594,790)**
Net monetary position in RON	**860,165**	**863,090**
Net monetary position in foreign currency	**(437,306)**	**(655,579)**

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

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

December 31, 2016	Carrying amount	Contractual amount	12 months or less	1 – 2 years	2 – 5 years	> 5 years
Financial liabilities						
Trade and other liabilities	877,058	877,058	877,058	-	-	-
Other tax and social security liabilities	12,291	12,291	12,291	-	-	-
Borrowings	657,478	1,646,600	155,548	311,712	95,402	94,816
Total	**1,546,827**	**2,535,949**	**1,044,897**	**311,712**	**95,402**	**94,816**

December 31, 2015	Carrying amount	Contractual amount	12 months or less	1 – 2 years	2 – 5 years	> 5 years
Financial liabilities						
Trade and other liabilities	779,516	779,516	763,183	16,333	-	-
Other tax and social security liabilities	8,694	8,694	8,694	-	-	-
Borrowings	815,284	1,069,480	180,694	133,886	384,417	116,287
Total	**1,603,484**	**1,857,680**	**952,561**	**150,219**	**384,417**	**116,287**

28. FINANCIAL INSTRUMENTS (continued)

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 December 31, 2016 and December 31, 2015, management believes that the fair values of cash and cash equivalents, trade and other receivables, trade payables, loans and other short-term liabilities approximates their carrying value. The carrying amount of the loan is the amortized cost.

December 31, 2016	**Carrying amount**	**Fair value**	**Level**
Financial assets			
Net trade receivables	774,993	774,993	Level 1
Cash and cash equivalents	960,489	960,489	Level 1
Other financial assets	135,090	135,090	Level 1
Other net receivables	89,339	89,339	Level 1
	1,959,911	**1,959,911**	

December 31, 2016	**Carrying amount**	**Fair value**	**Level**
Non-current financial liabilities			
Borrowings, except for bonds	501,930	501,930	Level 1
Bonds	200,000	200,000	Level 1
	701,930	**701,930**	
Current financial liabilities			
Trade payables and suppliers of non-current assets	877,058	877,058	Level 1
Borrowings	155,548	155,548	Level 1
Liabilities towards employees and other liabilities	12,291	12,291	Level 1
	1,044,897	**1,044,897**	

December 31, 2015	**Carrying amount**	**Fair value**	**Level**
Financial assets			
Net trade receivables	600,669	600,669	Level 1
Cash and cash equivalents	1,002,829	1,002,829	Level 1
Other financial assets	70,085	70,085	Level 1
Other net receivables	128,719	128,719	Level 1
	1,802,301	**1,802,301**	

December 31, 2015	**Carrying amount**	**Fair value**	**Level**
Non-current financial liabilities			
Borrowings, except for bonds	434,590	434,590	Level 1
Bonds	200,000	200,000	Level 1
	634,590	**634,590**	
Current financial liabilities			
Trade payables and suppliers of non-current assets	779,516	779,516	Level 1
Borrowings	180,694	180,694	Level 1
Liabilities towards employees and other liabilities	14,184	14,184	Level 1
	974,394	**974,394**	

27. FINANCIAL INSTRUMENTS (continued)

Categories of financial assets

	December 31, 2016	December 31, 2015
Financial assets		
Cash and bank equivalents	1,095,579	1,074,914
Receivables	874,107	729,388
Financial liabilities		
Amortized cost	1,802,230	1,603,484

Personnel risk and the salary scheme

As at December 31, 2016, 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 Company could also face the risk that highly qualified employees leave for private companies which may offer salary packages more attractive than those offered by the Group.

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

Capital risk management

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

Gearing ratio

	December 31, 2016	December 31, 2015
Short and long-term borrowings	657,478	815,284
Cash and cash equivalents	(960,489)	(1,002,829)
Other financial assets	(135,090)	(70,085)
	(438,101)	**(257,630)**
Equity	3,133,857	3,071,773
Gearing ratio	-	-

29. FEES CHARGED BY EACH STATUTORY AUDITOR OR AUDIT FIRM

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

- **SC Deloitte Audit SRL -** Contract no. C358/10.09.2014 – services to audit the separate and consolidated financial **statements**, issuance of the report on the conformity of the Management Board's Report with the separate and consolidated financial statements, audit services regarding the fulfillment of the financial covenants provided in the bond issuance contracts, audit report in compliance with Art. 113 letter G paragraph (6) of Regulation no. 1/2006 issued by the NSC – fees for 2016 – 205,432, to which VAT is added;

- **SC Ernst&Young SRL** - Contract no. C372/25.09.2014 – services to conduct a survey on the impact of setting up the two-**part** tariff system for implementing the electricity transmission service – fees for 2016 – 900, to which VAT is added;

- **SC PKF Finconta SRL -** Contract no. C75/11.04.2016 – tax consultancy services – fees for 2016 – 33,477, to which VAT is added.

30. SUBSEQUENT EVENTS

Government Resolution no. 10/13.01.2017 adopting safety measures on the electricity market

Further to the publication of Government Resolution no. 10/13.01.2017 in the Official Journal, CNTEE Transelectrica SA, as Transmission and System Operator, is authorized to apply the technical and commercial safeguarding measures according to Art. 6, para. (3) of the *Regulation establishing the emergency safeguarding measures in the operation of the National Power System*, approved by ANRE Order no. 142/2014.

In this respect, the National Power Dispatch Center carries out the following actions:
- monitors on a regular basis and forecasts the progress of the electricity consumption, the status of stocks of fuel and the availability of production units, the evolution of the flow of the Danube river and the stocks of water in the main reservoirs;
- obtains information on the weather forecast for the following days, especially as regards extreme weather phenomena and the communications sent by the National Weather Administration;
- collaborates with the National Gas Dispatch Center (NGDC) for mutual updating on the operating parameters in the two systems;
- collaborates with the transmission and system operators from neighboring countries in order to coordinate the interconnected operation of the systems and to be informed on their operating condition.

After assessing the functionality of the system, the consumption forecasts and the weather forecasts and the existing energy reserves, in order to ensure the safe and continuous delivery of electricity to the population, the National Dispatch Center may declare a state of crisis in the National Power System. In this case, the following safeguard measures may be implemented gradually:

1. The transition from natural gas to alternative fuel (heating oil) in the operation of certain plants, in accordance with GR 844/2016, Annex 1A. the measure is applied based on the notification received from the NGDC, according to the joint action plan;
2. Reduction/annulment of the interconnection capacity available for export;
3. Reduction/annulment of exchanges of energy notified for export;
4. The phasing in of electricity consumption. This restriction does not affect the population, as it only applies to industrial consumers by restricting consumption to a minimum technological power, in accordance with the electricity supply contracts.

The measures mentioned at items 2 and 3 are applied in accordance with the bilateral agreements on the allocation of the interconnection capacity concluded with neighboring operators.

The measures may be applied in the order presented and gradually, depending on the status of the National Power System when the decision is made.

These measures have already been taken by some transmission and system operators in neighboring countries (Bulgaria, Greece). Similar measures are also envisaged by other European countries (France, Belgium, Italy etc.).

ANRE Decision no. 71/26.01.2017 approving the Implementation Calendar of two-tier tariffs for the electricity transmission and distribution services at the level of grid operators

By Decision no. 71/26.01.2017, ANRE approved the Implementation Calendar of two-tier tariffs for the electricity transmission and distribution services to simulate the charge of two-tier tariffs at the level of grid operators between 01.01. and 31.10.2017.

ANRE Decisions nos. 185, 186 and 187 of 17.02.2017 on the acquisition of the technological system service – slow tertiary reserve

Given GR no. 55/2017 amending GR no. 844/2016, ANRE approved Decisions nos. 185, 186 and 187 of 17.02.2017 on acquisition of additional technological system services – slow tertiary reserve from Electrocentrale Bucharest, Electrocentrale Galati and Veolia Energie Prahova through alternative fuel-based (heating oil) units, for the period 18 February – 15 March 2017 (extending the prior period by one month: 3 January - 15 February).

Evolution of prices on the wholesale electricity market

Given the high consumption of electricity due to low temperatures and certain restrictions and unavailable production capacities, electricity prices on short-term markets and the balancing market increased significantly in January 2017 both in the prior month and year-on-year.

Appointment of member in Supervisory Board

According to Decision no. 3 of January 31, 2017, the members of the Supervisory Board appointed Mr. Ciprian BOLOȘ as temporary member in the Supervisory Board. The appointment became effective starting February 1, 2017.

Waiver of mandate of President of the management Board

In accordance with the provisions of Mandate Contract no. C419/13.11.2014 and the communication registered by the Company under no. 8982/10.03.2017, Mr. Ion-Toni TEAU waives his mandate as member and president of the Management Board of CNTEE "Transelectrica" S.A. starting April 26, 2017.

The accompanying consolidated financial statements were approved by the management on March 21, 2017 and signed on its behalf by:

Management Board,

Ion-Toni TEAU	**Constantin VĂDUVA**	**Octavian LOHAN**	**Mircea - Toma MODRAN**
President of Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Cristina STOIAN	**Veronica CRISU**
Head of Financial Strategy and Treasury Directorate	Head of Accounting Department