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

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 Stand-alone financial statements of CNTEE Transelectrica SA for the 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.

CNTEE Transelectrica SA has elaborated stand-alone financial statements for the 2016 financial exercise in accordance with OMFP 2844/2016 approving the Accounting Regulations compliant with the International Financial Reporting Standards.

The stand-alone financial statements have got the components provided in the International Accounting Standard (IAS) 1 – "Submission of financial statements" and consist of: financial position statement, profit and loss account, global result statement, equity changes statement, cash flow statement as well as explanatory notes to the annual financial statements, in accordance with the provisions of article 6 from OMFP 2844/2016.

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 Stand-alone 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, DESF	Manager, Accounting Depart.

ENDORSED,
Radu Cernov
Director, DJC

Deloitte.

Deloitte Audit S.R.L.
Șos Nicolae Titulescu nr. 4-8
Intrarea de est,
Etajul 2 zona Deloitte și etajul 3
Sector 1, 011141, București
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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 Separate Financial Statements

Opinion

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

2. In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2016, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by 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 Separate Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Deloitte.

Reporting requirements concerning the separate administrators' report

5. The administrators are responsible for the preparation and presentation of the separate administrators' report in accordance with the requirements of the Ministry of Public Finance Order no. 2844/2016 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20, 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 administrators' report is not part of the separate financial statements.

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

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

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

   b) the 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 EU, article no. 20 (accounting regulations regarding annual standalone separate financial statements and annual consolidated separate financial statements);

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

Responsibilities of Management and Those Charged with Governance for the Separate financial statements

6. Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Deloitte.

Auditor's Responsibilities for the Audit of the Separate financial statements

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

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

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

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

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

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

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

11. 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.

12. 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.

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

    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

CNTEE Transelectrica S.A.

Company managed in a dualist system

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

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

	Note	December 31, 2016	December 31, 2015
ASSETS			
Non-current assets			
Property, plant and equipment	**5**	3,189,591,544	3,341,450,716
Intangible assets	**6**	14,457,314	34,569,691
Financial assets	**27**	78,038,750	55,944,450
Non-current assets	**7**	9,774,959	
Total non-current assets		**3,291,862,567**	**3,431,964,857**
Current assets			
Inventories	**8**	30,409,648	34,328,954
Trade and other receivables	**9**	851,971,683	723,447,541
Other financial assets	**10**	135,090,000	70,085,000
Cash and cash equivalents	**11**	933,661,193	974,451,258
Total current assets		**1,951,132,524**	**1,802,312,753**
Total assets		**5,242,995,091**	**5,234,277,610**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' Equity			
Share capital, of which:		733,031,420	733,031,420
- *Subscribed share capital*		733,031,420	*733,031,420*
Share premium		49,842,552	49,842,552
Legal reserves		116,360,295	99,407,385
Revaluation reserves		549,088,226	603,684,792
Other reserves		56,953,728	55,694,602
Retained earnings		1,602,438,193	1,487,644,971
Total shareholders' equity	**12**	**3,107,714,414**	**3,029,305,722**
Non-current liabilities			
Long term deferred income	**13**	429,858,527	462,721,487
Borrowings	**14**	501,929,998	634,589,744
Deferred tax liability	**17**	30,195,003	34,663,246
Employee benefits obligations	**15**	43,304,975	34,669,295
Total non-current liabilities		**1,005,288,503**	**1,166,643,772**

	Note	December 31, 2016	December 31, 2015
Current liabilities			
Trade and other liabilities	**16**	873,948,200	776,167,704
Other tax and social security liabilities	**19**	8,611,209	6,763,363
Borrowings	**14**	138,204,932	167,362,315
Provisions	**16**	53,801,778	38,255,213
Short-term deferred income	**13**	38,125,074	33,408,244
Income tax payable	**17**	17,300,981	16,371,277
Total current liabilities		**1,129,992,174**	**1,038,328,116**
Total liabilities		**2,135,280,677**	**2,204,971,888**
Total shareholders' equity and liabilities		**5,242,995,091**	**5,234,277,610**

The accompanying separate 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		1,146,256,800	1,284,807,593
System services revenues		716,339,587	731,205,273
Balancing market revenues		814,079,670	923,035,364
Other revenues		45,827,232	45,537,871
Total revenues	**20**	**2,722,503,289**	**2,984,586,101**
Operating expenses			
System operating expenses	**21**	(230,756,782)	(231,851,362)
Balancing market expenses	**21**	(814,079,670)	(923,035,364)
Technological system services expenses	**21**	(561,027,373)	(637,652,613)
Depreciation and amortization		(323,363,219)	(318,482,384)
Personnel expenses	**22**	(211,867,366)	(186,314,044)
Repairs and maintenance expenses		(88,394,391)	(88,514,482)
Materials and consumables	**8**	(7,675,889)	(8,456,529)
Other operating expenses	**23**	(133,720,367)	(141,624,454)
Total operating expenses		**(2,370,885,057)**	**(2,535,931,232)**
Operating profit		**351,618,232**	**448,654,869**
Finance income		29,960,030	48,093,549
Finance cost		(46,988,308)	(66,925,882)
Net finance result	**24**	**(17,028,278)**	**(18,832,333)**
Profit before income tax		**334,589,954**	**429,822,536**
Income tax	**17**	(62,228,411)	(69,768,069)
Profit for the year		**272,361,543**	**360,054,467**
Basic and diluted earnings per share (lei/share)	**18**	**3,7155**	**4.91**

The accompanying separate 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		**272,361,543**	**360,054,467**
Other comprehensive income			
Elements that will not be reclassified in the income statement, of which:			
- Effect of taxation on revaluation reserve		-	(10,715,470)
- Surplus from the revaluation of tangible assets		-	48,663,173
- Actuarial gain/(loss) on defined benefit plans	**15**	(958,650)	(8,345,968)
Other comprehensive income (OCI)		**(958,650)**	**29,601,735**
Total comprehensive income		**271,402,893**	**389,656,202**

The accompanying separate 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	Total
Balance as at January 1, 2015	**733,031,420**	**49,842,552**	**78,424,484,**	**615,407,592**	**23,660,704**	**1,312,739,568**	**2,813,106,320**
Comprehensive income for the year							
Profit for the year	-	-	-	-	-	360,054,467	360,054,467
Other comprehensive income, of which:	-	-	-	-	-	-	-
Defined benefit plan actuarial losses	-	-	-	-	-	(8,345,968)	(8,345,968)
Surplus from the revaluation of tangible assets	-	-	-	48,663,173	-	-	48,663,173
Deferred income liability with revaluation reserve	-	-	-	(10,715,470)	-	-	(10,715,470)
Total other comprehensive income for the year	-	-	-	**37,947,703**	-	**(8,345,968)**	**29,601,735**
Total comprehensive income for the year	-	-	-	**37,947,703**	-	**351,708,499**	**389,656,202**
Other elements							
Transfer of revaluation reserve to retained earnings	-	-	-	(49,670,503)	-	49,670,503	-
Increase of legal reserve	-	-	20,982,901	-	-	(20,982,901)	-
Other	-	-	-	-	127,200	-	-
Total other elements	-	-	**20,982,901**	**(49,670,503)**	**127,200**	**28,687,602**	**127,200**
Contributions by and distributions to shareholders							
Subsidies related to long-term assets such as public patrimony (see Note 11)	-	-	-	-	31,906,698	-	31,906,698
Distribution of dividends	-	-	-	-	-	(205,490,698)	(205,490,698)
Total contributions by and distributions to shareholders	-	-	-	-	**31,906,698**	**(205,490,698)**	**(173,584,000)**
Balance as at December 31, 2015	**733,031,420**	**49,842,552**	**99,407,385**	**603,684,792**	**55,694,602**	**1,487,644,971**	**3,029,305,722**

The accompanying separate 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**

The accompanying notes are an integral part of these separate financial statements.

Head of Financial Strategy and Treasury Directorate	**CRISU** Head of Accounting Department

	Share capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Total
Balance as at January 1, 2016	**733,031,420**	**49,842,552**	**99,407,385**	**603,684,792**	**55,694,602**	**1,487,644,971**	**3,029,305,722**
Comprehensive income for the year							
Profit for the year	-	-	-	-	-	272,361,543	272,361,543
Other comprehensive income, of which:							
Defined benefit plan actuarial losses	-	-	-	-	-	(958,650)	(958,650)
Total other comprehensive income for the year	-	-	-	-	-	**(958,650)**	**(958,650)**
Total comprehensive income for the year	-	-	-	-	-	**271,402,893**	**271,402,893**
Other elements							
Transfer of revaluation reserve to retained earnings	-	-	-	(54,596,566)	-	54,596,566	-
Increase of legal reserve	-	-	16,952,910	-	-	(16,952,910)	-
Other	-	-	-	-	-	-	-
Total other elements	-	-	**16,952,910**	**(54,596,566)**	-	**37,643,656**	-
Contributions by and distributions to shareholders							
Subsidies related to long-term assets such as public patrimony (see Note 12)	-	-	-	-	1,259,126	-	1,259,126
Distribution of dividends	-	-	-	-	-	(194,253,327)	(194,253,327)
Total contributions by and distributions to shareholders	-	-	-	-	**1,259,126**	**(194,253,327)**	**(192,994,201)**
Balance as at December 31, 2016	**733,031,420**	**49,842,552**	**116,360,295**	**549,088,226**	**56,953,728**	**1,602,438,193**	**3,107,714,414**

The accompanying separate 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

Veronica CRISU

Directorate	Head of Accounting Department

	2016	2015
Cash flows from operating activities		
Profit for the year	272,361,543	**360,054,467**
Adjustments for:		
Income tax expense	62,228,411	69,768,069
Depreciation and amortization	323,363,219	318,482,383
Expenses with impairment allowances for trade and other receivables	32,739,158	30,826,111
Increase in reversal of impairment allowances for trade and other receivables	(11,323,797)	(25,955,273)
Net loss on disposal of property, plant and equipment	272,673	1,118,918
Net expenses with impairment allowances for inventories	4,736,607	23,220,964
Reversal of impairment allowances for property, plant and equipment	22,821,573	12,081,959
Net reversal of impairment allowances for provisions for risks and charges	493,000	-
Interest expense, interest income and unrealized foreign exchange gains	16,967,314	18,768,695
Cash flows before changes to working capital	**724,659,701**	**808,366,294**
Changes in:		
Clients and similar accounts – energy and other activities	(38,582,866)	116,216,511
Clients - balancing	(100,325,112)	91,960,770
Clients - cogeneration	(20,438,116)	118,440,683
Inventories	3,919,306	1,351,564
Trade and other liabilities – energy and other activities	(67,341,791)	(112,899,968)
Liabilities - balancing	122,122,565	(94,213,957)
Liabilities - cogeneration	6,642,675	21,184,221
Other taxes and social security liabilities	1,847,846	(814,524)
Deferred income	(26,887,004)	(57,801,177)
Cash flows from operating activities	**605,617,204**	**891,790,417**
Interest paid	(25,002,612)	(30,710,768)
Income tax paid	(65,766,950)	(55,746,308)
Net cash from operating activities	**514,847,642**	**805,333,341**
Cash flows used in investing activities		
Purchase of property, plant and equipment and of intangible assets	(171,758,870)	(213,560,675)
Proceeds from advances paid in the prior financial year and not used	29,581,392	(29,581,392)
Proceeds from sale of property, plant and equipment	37,001	-
Interest received	5,297,687	11,729,285
Dividends received	3,038,332	7,072,102
Other financial assets	(65,005,000)	78,715,000
Net cash used in investing activities	**(198,809,458)**	**(145,625,680)**
Cash flows used in financing activities		
Repayments of long-term borrowings	(162,486,218)	(196,387,449)
Dividends paid	(194,342,031)	(205,306,527)
Net cash used in financing activities	**(356,828,249)**	**(401,693,976)**
Net increase in cash and cash equivalents	**(40,790,065)**	**258,013,685**
Cash and cash equivalents as at 1 January (see Note 11)	**974,451,258**	**716,437,573**
Cash and cash equivalents at the end of the period (see Note 11)	**933,661,193**	**974,451,258**

The accompanying separate 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

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION

The main activity of CNTEE Transelectrica SA ("the Company") 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 separate financial statements as at December 31, 2016 prepared in accordance with Ministry of Public Finance Order no. 2844/2016 for the approval of Accounting Regulations compliant with International Financial Reporting Standards, are available at the Company's working point located at Str. Olteni nr. 2 – 4, sector 3, Bucharest.

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

In accordance with the 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 12, as at December 31, 2016, the shareholders of the Company are: the Romanian State through the Ministry of Economy, Commerce and Tourism, which holds 43,020,309 shares (58.69%), 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 Company

The mission of the Company 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 Company's activity

CNTEE Transelectrica SA became a member of the Union for the Coordination of Transmission of Electricity ("UCTE") in October 2004, and from November 2004 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 ofTransmission 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;

CNTEE Transelectrica SA 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. 802/18.05.2016 and the General Conditions associated to the license approved by ANRE Order no. 104/2014, as subsequently amended and supplemented.

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

- the regulatory framework is relatively new and constantly prone to changes, which may affect the Company's performances;
- ANRE decisions regarding future tariffs may affect the Company's activity;
- The volume risk, namely the decrease 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 National Power Grid Company "Transelectrica" SA as transmission and system operator of the National Power System according to the ownership unbundling model.

The ownership unbundling model has become available to the Company 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 20).

Regulated assets base ("RAB")

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

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

The current regulatory period lasts five years (July 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 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 4.11% 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.

Company's revenues

The main revenue generating activities for the Company 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 Company 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 Transelectrica consists in ensuring the technical conditions and maintaining the ETG parameters during the injection/extraction of energy in/from the ETG.

System services

The Company'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 Company uses its own resources called functional system services and purchases technological system services from electricity producers.

CNTEE Transelectrica SA 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 CNTEE Transelectrica SA 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. CNTEE Transelectrica SA 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 CNTEE Transelectrica SA provides and consist in planning and operationally managing the NPS, as well as the other activities of CNTEE Transelectrica SA 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, CNTEE Transelectrica SA 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, CNTEE Transelectrica SA 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., CNTEE Transelectrica SA 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, CNTEE Transelectrica SA has the commercial task of settling the electricity traded between SC OPCOM SA and MAVIR.

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

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

(b) Basis of measurement

The 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 Company's functional currency.

(d) Use of estimates and judgements

The preparation of 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 26), the recognition of non-refundable funds to be received (see Note 13), the provision for impairment of receivables (see Note 9), the liabilities related to cash settled share-based payment transaction (Note 29) and the liabilities for defined benefit plans (Note 15).

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 13 – the estimate of the Company 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 15 – measurement of the liabilities for defined benefit obligations;
- Note 26 - recognition and measurement of provisions, commitments and contingencies, key assumptions regarding the probability and magnitude of an outflow of resources;
- Note 29 - 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 Company (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 Company 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 Company are regulated by ANRE, therefore the grantor – the competent ministry – does not control or regulate the type of services that the Company 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 Company holds the monopoly in electricity transmission.

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

3. ACCOUNTING POLICIES

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

(a) Property, plant and equipment

Owned assets

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

Recognition

Property, plant and equipment is valued initially at historical cost.

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

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

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

Subsequent expenditure

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

3. ACCOUNTING POLICIES (continued)

(a) Property, plant and equipment (continued)

Depreciation

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

	Normal useful life (years)
Buildings and special installations	40-60
Machinery and equipment	15-40
Control 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 Company 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.

(b) Public patrimony assets

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

Government Resolution no. 627/2000 establishes in Annex no. 8 the State public patrimony fixed assets which are under the Company's administration since August 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 Company 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 Company 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)

(b) 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 Company 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 Company 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 Company paid under the concession contract for the period January 1 – December 31, 2014 is significantly less than the amount of the depreciation that the Company would have recorded on such assets if the concession contract had not been signed. However, the Company 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.

(c) Intangible assets

The intangible assets of the Company 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 and useful lives 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 Company.

3. ACCOUNTING POLICIES (continued)

(d) 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.

(e) 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 Company 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".

(f) Inventories

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 Company'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 Company 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 Company 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 Company'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 Company 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 Company becomes a party to the contractual provisions of the instrument.

The Company 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 Company is recognized as a separate asset or liability.

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

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

Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date 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 Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. The Company 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 Company 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 Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities may affect tax expense in the period when such determination is made.

(p) Employee benefits

Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits other than pension plans is the 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 Company, in the normal course of business, makes payments to the pension funds on behalf of its employees. All employees of the Company are members of the Romanian State pension plan. These payments are expensed as the related services are provided by the employees.

(q) Revenues

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

The Romanian State, through ANRE, regulates the prices that the Company 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, CNTEE Transelectrica SA:

- 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 Company receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant or equipment and the Company must then use the item of property, plant or equipment to connect customers to the network.

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 Company 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 Company capitalizes the borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale for which financing was obtained after January 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 Company'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 Company 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 Company 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 Company 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 Company'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 Company 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 Company'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 new standards and 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 Company'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 Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

(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 Company, 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	Tangible assets in progress	Total
COST								
Balance as at January 1, 2015	**52,613,227**	**2,306,262,316**	**2,899,053,820**	**401,883,420**	**9,762,774**	**250,746,175**	**294,420,569**	**6,214,742,301**
Additions	127,200	-	-	-	-	-	241,301,460	**241,428,660**
Increase/decrease of revaluation reserve	-	34,368,540	-	-	-	-	-	**34,368,540**
Transfers from tangible assets in progress	70,631	16,789,976	81,532,988	12,710,899	1,841,780	14,483,755	(127,430,029)	-
Transfers from intangible assets in progress	-	-	-	-	-	-	(178,452)	**(178,452)**
Reclassifications among non-current assets accounts	-	(1,281,901)	1,281,901	(86,071)	86,071	-	-	-
Disposals	-	(7,675,359)	(676,437)	(290,093)	(122,685)	(782,236)	(440,967)	**(9,987,777)**
Revaluation impact	-	(1,056,960,191)	-	-	-	-	-	**(1,056,960,194)**
Balance as at December 31, 2015	**52,811,058**	**1,291,503,378**	**2,981,192,272**	**414,218,155**	**11,567,940**	**264,447,694**	**407,672,581**	**5,423,413,078**
Balance as at January 1, 2016	**52,811,058**	**1,291,503,378**	**2,981,192,272**	**414,218,155**	**11,567,940**	**264,447,694**	**407,672,581**	**5,423,413,078**
Additions	-	597	46,963	-	-	-	174,568,463	**174,616,023**
Transfers from tangible assets in progress	-	19,717,133	49,817,972	8,067,284	7,984,752	5,368,922	(90,956,063)	-
Reclassifications among non-current assets accounts	-	444,416	(437,120)	(7,296)	-	-	-	-
Disposals	-	(242,426)	(6,169,167)	(1,057,383)	(279,907)	(2,672,169)	(274,542)	**(10,695,594)**
Balance as at December 31, 2016	**52,811,058**	**1,311,423,098**	**3,024,450,920**	**421,220,760**	**19,272,785**	**267,144,447**	**491,010,439**	**5,587,333,507**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land and land improvements	Buildings and special installations	Machinery and equipment	Control devices	Vehicles	Other fixed assets	Tangible assets in progress	Total
ACCUMULATED DEPRECIATION								
Balance as at January 1, 2015	**138,179**	**982,977,973**	**1,452,797,707**	**261,523,932**	**7,828,918**	**116,260,257**	**-**	**2,821,526,966**
Depreciation expense	-	80,878,100	172,726,327	30,840,370	452,419	28,394,215	-	**313,291,431**
Accumulated depreciation of disposals	-	(6,895,879)	(665,520)	(290,054)	(95,175)	(747,492)	-	**(8,694,120)**
Revaluation impact	-	(1,056,960,194)						**(1,056,960,194)**
Balance as at December 31, 2015	**138,179**	**-**	**1,624,858,514**	**292,074,248**	**8,186,162**	**143,906,980**	**-**	**2,069,164,083**
Balance as at January 1, 2016	**138,179**	**-**	**1,624,858,514**	**292,074,248**	**8,186,162**	**143,906,980**	**-**	**2,069,164,083**
Depreciation expense	-	90,136,428	170,088,691	29,597,934	706,866	30,373,465	-	**320,903,384**
Accumulated depreciation of disposals	-	(69,916)	(6,117,426)	(1,057,384)	(279,906)	(2,591,904)	-	**(10,116,536)**
Balance as at December 31, 2016	**138,179**	**90,066,512**	**1,788,829,779**	**320,614,798**	**8,613,122**	**171,688,541**	**-**	**2,379,950,931**
IMPAIRMENT ALLOWANCES								
Balance as at January 1, 2015	**-**	**-**	**-**	**-**	**-**	**-**	**5,455,724**	**5,455,724**
Impairment allowances	-	11,479			157,307	-	7,173,769	7,342,555
Balance as at December 31, 2015	**-**	**11,479**	**-**	**-**	**157,307**	**-**	**12,629,493**	**12,798,279**
Impairment allowances	-	(11,479)			(43,899)	-	5,048,131	4,992,753
Balance as at December 31, 2016	**-**	**-**	**-**	**-**	**113,408**	**-**	**17,677,624**	**17,791,032**
CARRYING AMOUNT								
Balance as at December 31, 2015	**52,475,048**	**1,323,284,343**	**1,446,256,113**	**140,359,488**	**1,933,856**	**134,485,918**	**288,964,845**	**3,387,759,611**
Balance as at December 31, 2015	**52,672,879**	**1,291,491,899**	**1,356,333,758**	**122,143,907**	**3,224,471**	**120,540,714**	**395,043,088**	**3,341,450,716**
Balance as at December 31, 2016	**52,672,879**	**1,221,356,586**	**1,235,621,141**	**100,605,962**	**10,546,256**	**95,455,906**	**473,332,815**	**3,189,591,544**

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 – 63.461.042;
- 400 kV OHL interconnecting Reşiţa (Romania) to Pancevo (Serbia) – 19.661.136;
- Connection of 400 kV Isaccea - Varna OHL and Isaccea - Dobrudja OHL to 400 kV Medgidia Sud Station – 9,102,385;
- Upgrading of the 220/110/20 kV Campia Turzii Station – 8.013.455;
- 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 – 7.176.238;
- Upgrading of 110 kV and 20 kV Suceava Stations – 6.304.159;
- 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 – 3.664.853;
- Replacement of AT and Sub-station in electrical stations – stage 2 – 5.852.904;
- Remedy of breakdown in emergency regime of 400 kV Iernut - Gadalin OHL and 220 kV Iernut - Baia Mare 3 OHL – 5.418.277;
- Upgrading of 220/110 kV Tihau Station – primary equipment – 3.897.243;
- 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 – 2.127.570;
- Modernizing the internal services c.c. and c.a. in the 400/110 kV Draganesti Olt Station – 1.835.502;
- 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 - 1.524.013;
- Replacing the central equipment SCADA system Gutinas 400/220 kV – 1.468.112;
- Constructing new pipes at the 220 kV Craiova Nord – Isalnita OHL, circ. 1 – 1.180.620;
- 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 – 1.096.917;
- Construction of fiber optics between Pitesti Sud station and the center for control and supervision of installations of S.T. Pitesti – 1.049.381;
- Consolidation and upgrading of 400/220/110/20 kV Suceava Station building – 962.916;
- 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 – 956.015;
- 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 – 943,445;
- Enhancing the safe operation of installations of the 400/220/110/10 kV Bucuresti Sud substation – replacement of 10 kV equipment - Lot II – 910.576;
- Construction of fiber optics between 400/220/110 KV Bradu Station and 220/110 KV Stuparei Station – 849.043;
- Upgrading of 400/110/10 kV Cluj Est Station – 736.462;
- The 400 kV Gadalin – Suceava OHL, including the interconnection to the NPS – 715.704;
- Refurbishment of control building at Roman Nord Station – 651.411;
- Integrated security system in the 400KV Stupina Station – 625.356;
- Connecting the sewage of the 400/110 kV Brasov station to the city sewage plant – 540.580;
- 400 kV d.c. (1 c.e.) Constanta Nord-Medgidia Sud OHL – 522.780;
- Replacing batteries of accumulators 2 and 3 of 220 V c.c. in the 400/110/20 kV Gura Ialomitei Station – 386.703;
- The coexisting regulation between the 220 kV Mintia-Timisoara OHL and the Lugoj – Deva highway, lot 2, km 41+890 – 315.682;
- Replacing Pole no. 301 from the 400kV Mintia - Sibiu Sud OHL – 286.787;
- Design services for the 400 kV Suceava – Balti OHL, for the part of the project located in Romania – 246.374;
- Thermal modernization of the IRE Craiova headquarters building – old side – 207.321;
- Upgrading the Resita Power Station headquarters building– 197.265;
- The coexisting regulation between the 400 kV double belt OHL bypassing DN 11 - DN 13 Brașov – 182.484;

- Upgrading the 220/110/20 kV Ungheni substation – 176.308;
- Upgrading the Bradu Power Station building – 146.724;
- Upgrading the industrial building no. 2 at Timisoara Transmission Branch, regime Sp+P+1E – 138.825;
- Replacing the batteries of accumulators of 220 V c.c. in the 400 kV Arad Station – 121,021.

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 - 18.610.797;
- 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 – 12.963.340;
- 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 - 9.801.924;
- Cars – 7.803.062;
- Upgrading of the control protection system of the 220/110 kV Vetis Station – 6.491.265;
- 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 – 4.399.157;
- 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 – 4.238.778;
- 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 - 3.784.263;
- Integrated security system in the power stations stage IV - the 400/110 kV Constanta Nord power station - 3.317.210;
- 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 - 2.107.207;
- Integrated security system in the 400KV Stupina Station - 1.911.274;
- Upgrading the c.c. si c.a. internal services in the 400/110 kV Draganesti Olt station - 1.875.752;
- Replacing the central equipment SCADA system Gutinas 400/220 kV – 1.485.048;
- Constructing new pipes at the 220 kV Craiova Nord – Isalnita OHL, circ. 1 – 1.230.848;
- Upgrading the industrial building no. 2 at Timisoara Transmission Branch, regime Sp+P+1E – 1.176.096;
- 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 – 1.078.554;
- Consolidation and upgrading of 400/220/110/20 kV Suceava Station building – 1.015.617;
- 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 – 956.015;
- 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 - 943.445;
- Extending the c.a. si c.c. internal services, completing the protection and control system in the 220/110 kV Pestis station – 594.208;
- Connecting the sewage of the 400/110 kV Brasov station to the city sewage plant – 557.556;
- Replacing Pole no. 301 from the 400 kV Mintia - Sibiu Sud OHL – 526.862;
- Replacing batteries of accumulators 2 and 3 of 220 V c.c. in the 400/110/20 kV Gura Ialomitei Station – 386.703;
- The coexisting regulation between the 220 kV Mintia-Timisoara OHL and the Lugoj – Deva highway, lot 2, km 41+890 – 315.682.

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 – 48,018,186;
- 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 2,545,853, 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 2,400,930, 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 Company performed the last revaluation, and
- there is no indication of impairment of the assets held by the Company 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 Company as at December 31, 2016 from the revaluation of buildings and special constructions in amount of 34,368,540, of which 48,663,173 was registered in the reserve account credit (14,294,633) 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 Company did not have any assets pledged or mortgaged.

Fair value of property, plant and equipment

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

The fair value of the Company'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	-	-	52,672,879	52,672,879
Buildings and special installations	-	-	1,221,356,586	1,221,356,586
Plant and machinery	-	-	1,235,621,141	1,235,621,141
Measurement and control devices	-	-	100,605,962	100,605,962
Vehicles	-	-	10,546,255	10,546,256
Other property, plant and equipment	-	-	95,455,906	95,455,906

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	-	-	52,672,879	52,672,879
Buildings and special installations	-	-	1,291,503,378	1,291,503,378
Plant and machinery	-	-	1,356,326,013	1,356,326,013
Measurement and control devices	-	-	122,043,905	122,043,905
Vehicles	-	-	3,409,288	3,409,288
Other property, plant and equipment	-	-	120,575,458	120,575,458

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	8,784,944	8,587,113
Buildings and special installations	744,290,077	771,203,552
Plant and machinery	1,171,847,235	1,277,849,468
Measurement and control devices	98,781,910	119,141,231
Vehicles	10,479,432	3,307,600
Other property, plant and equipment	95,455,882	120,536,166
TOTAL	**2,129,639,480**	**2,300,625,130**

6. INTANGIBLE ASSETS

As at December 31, 2016 and December 31, 2015 the Company's intangible assets are as follows:

	Licenses and software	Intangible assets in progress	Total
COST			
Balance as at January 1, 2015	**68,122,443**	**31,902,650**	**100,025,093**
Additions, of which	761,295	-	761,295
Transfers from intangible assets in progress	543,142	(543,142)	-
Transfers from tangible assets in progress	218,153	543,142	761,295
Disposals	(464,236)	-	(464,236)
Balance as at December 31, 2015	**68,419,502**	**31,902,650**	**100,322,152**
Balance as at January 1, 2016	**68,419,502**	**31,902,650**	**100,322,152**
Additions		5,048,678	**5,048,678**
Transfers from intangible assets in progress	2,270,566	(2,270,566)	**-**
Transfers from tangible assets in progress			
Disposals	(7,517,190)	(22,950,765)	**(30,467,955)**
Balance as at December 31, 2016	**63,172,878**	**11,729,997**	**74,902,875**

6. INTANGIBLE ASSETS (continued)

	Licenses and software	Intangible assets in progress	Total
ACCUMULATED AMORTIZATION			
Balance as at January 1, 2015	**60,268,789**	**-**	**60,268,789**
Amortization	5,193,929	-	5,193,929
Accumulated amortization of disposals	(464,236)	-	(464,236)
Balance as at December 31, 2015	**64,998,482**	**-**	**64,998,482**
Balance as at January 1, 2016	**64,998,482**	**-**	**64,998,482**
Amortization	2,593,261		2,593,261
Accumulated amortization of disposals	(7,517,190)		(7,517,190)
Balance as at December 31, 2016	**60,074,553**	**-**	**60,074,553**
IMPAIRMENT ALLOWANCES			
Balance as at January 1, 2015	**-**	**-**	**-**
Impairment allowances		753,979	**753,979**
Balance as at December 31, 2015	**-**	**753,979**	**753,979**
Impairment allowances		(382,971)	**(382,971)**
Balance as at December 31, 2016	**-**	**371,008**	**371,008**
CARRYING AMOUNT			
Balance as at December 31, 2016	**7,853,654**	**31,902,650**	**39,756,304**
Balance as at December 31, 2015	**3,421,020**	**31,148,671**	**34,569,691**
Balance as at December 31, 2016	**3,098,325**	**11,358,989**	**14,457,314**

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 – 22,587,300;
- Expenses registered by the Company 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 – 363,464.

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. – 762,208;
- 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 – 704,846;

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 5,474,290;
- 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 3,047,834;
- Replacement of EMS SCADA AREVA system components - software, Hardware – 2,778,113
- Extension of business continuity and disaster recovery services – 351,208.

7. NON-CURRENT RECEIVABLES

As at December 31, 2016, the Company registered non-current receivables in amount of RON 9,774,959, 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 29,259,377, representing overcompensation for the activity of SC Electrocentrale Oradea SA between 2014 and 2015, in 24 monthly tranches, until 30.09.2018.

The RON 9,774,959, due within more than 1 year, was reclassified to non-current receivables and represents the overcompensation for 2015.

8. INVENTORIES

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

	December 31, 2016	December 31, 2015
Spare parts	21,904,697	24,598,778
Consumables and other materials	7,226,833	8,273,496
Auxiliary materials	637,832	454,129
Other inventories	640,286	1,002,551
Total	**30,409,648**	**34,328,954**

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

	December 31, 2016	December 31, 2015
Impairment of consumables	4,504,931	2,131,822
Impairment of other materials	1,924,134	1,796,059
Impairment of packaging	34,293	34,293
Total	**6,463,358**	**3,962,174**

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

	December 31, 2016	December 31, 2015
Balance as at January 1	**3,962,174**	**1,604,884**
Inventory impairment allowances	4,110,045	2,357,290
Reversal of inventory impairment allowances	(1,608,861)	-
Balance at the end of the year	**6,463,358**	**3,962,174**

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

	December 31, 2016	December 31, 2015
Spare parts	2,229,478	2,964,186
Other consumables	1,199,932	944,667
Other materials	1,536,239	1,547,661
Auxiliary materials	406,494	613,465
Fuel	2,303,746	2,386,549
Total	**7,675,889**	**8,456,528**

9. 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	865,338,164	684,296,714
Other receivables	129,703,771	115,977,791
Advances to suppliers	19,155,031	68,413,826
Non-refundable funds to be received	-	21,666,435
VAT to be recovered	28,432,828	5,239,033
Impairment of doubtful trade receivables	(100,578,031)	(87,986,497)
Impairment of other doubtful receivables	(90,080,080)	(84,159,760)
Total	**851,971,683**	**723,447,541**

9. TRADE AND OTHER RECEIVABLES (continued)

Trade receivables are as follows:

	December 31, 2016	**December 31, 2015**
Customers – energy market, of which:	863,706,722	679,681,724
- customers – operating activity - energy	428,633,645	400,268,217
- customers – balancing market	255,980,457	110,268,217
- customers – bonus support scheme to promote high-efficiency cogeneration	179,092,620	168,429,464
Customers from other activities	1,631,442	4,615,278
Total trade receivables	**865,338,164**	**684,297,002**

- 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 outsanding 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:

- 11,843,207 representing overcompensation for 2014, of which collections by bank transfer in amount of 5,052,692 (Termo Calor – 195,801 and Electrocentrale Oradea – 4,856,891) and compensation-based collections through the Management and Informatics Institute (as per GR no. 685/1999) in amount of 6.790.515 (Electrocentrale Oradea);

- 96,646,326 representing overcompensation for 2015, of which collections by bank transfer in amount of 12,362,142 (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 84.284.184 (Complex Energetic Oltenia, Enet and Electrocentrale Bucuresti);

- 2,674,846 representing undue bonus for 2015, of which collections from bank transactions in amount of 324,626 (Electrocentrale Bucuresti) and compensation-based collections through the Management and Informatics Institute (as per GR no. 685/1999) in amount of 2,350,220 (CET Arad and Energy Cogeneration).

As at December 31, 2016, the Company registered receivables in amount of de 123,569,247 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 76,702,140, i.e. from RAAN – 63,467,054 and CET Govora SA – 1,393,972;

- overcompensation for 2014 in amount of 1,393,972, namely from Electrocentrale Oradea –1,393,972,
- undue bonus for 2014 in amount of 3,914,960, namely from RAAN – 1,981,235, CET Govora – 1,933,725;
- undue bonus for 2015 in amount of 563,899, namely from CET Govora - 534.377, Interagro – 29,523;
- overcompensation for 2015 in amount of 13,233,555, namely from Electrocentrale Oradea – 13,233,555
- cogeneration contribution not received from the suppliers of the electricity consumers, in amount of 27,760,721, namely: Transenergo Com – 4.740.918, Enel Energie – 4,693,023, Enel Energie Muntenia – 4,611,160, PetProd – 4,391,193, Romenergy Industry – 2,680,620, RAAN- 2,385,922, UGM Energy – 1.814.175 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 29,259,377, was scheduled in 24 monthly tranches (31.10.2016 - 30.09.2018), and the 9.774.959 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.

9. TRADE AND OTHER RECEIVABLES (continued)

Other receivables

As at December 31, 2016, other receivables in amount of 129,703,771 include mainly:

- delay penalties calculated for bad debts, in amount of 59,769,320 (of which 25,925,061 represents penalties related to the support scheme).

The biggest delay penalties have been registered by: RAAN (16,901,449), SC CET Govora (9,606,504), SC Eco Energy SRL (8,909,843), SC Petprod SRL (8,894,655), Arcelor Mittal Galati (3,993,435), Total Electric Oltenia (3,288,967). 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 44,442,936 (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 4,517,460;
- prepaid expenses in amount of 10.574.113 represented mainly by advances to the contracts concluded with the electricity suppliers needed to cover the own technological consumption for future periods (8,501,498), guarantee commission for the loan from IEB 25710 (90.067) and origination loan fee due to ING (681,215), technical maintenance and support (225,272), rentals (585,470);
- other non-current receivables in amount of 4,386,480, of which 4,068,422 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 OEL 400 kV Resita– Pancevo (Serbia).

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 16,303,174 plus RON 27,195,557 as penalties. The total value of these obligations amounts to RON 43,498,731. 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 RON 944,423 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 44,442,936. 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 has sued ANAF to the Bucharest Court of Appeal in August 2012 for the recovery of the amount and has requested the admission of the 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 16,303,174 the judiciary accounting expert appraisal report found unjustified revenues amounting to 551,013, 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 appeal. 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 submitted 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 lodgment 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 lodgment 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 Disputes Section, issued in File no. 6657/2/2012, as ungrounded. Irevocabila".

7. 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 19,155,031, of which 19,132,894 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 (29,242,364), SC Eco Energy SRL (24,736,066), SC Total Electric Oltenia SA (14,185,577), Romenergy Industry (13,018,634), RAAN (8,662,121), Also Energ (7,177,167), Opcom (4,517,460). 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 44,442,936 for the total liabilities paid to ANAF.

The exposure to collection risk and value adjustments related to trade receivables are presented in Note 29.

10. 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	135,090,000	70,085,000
Total	**135,090,000**	**70,085,000**

Bank deposits more than 90 days maturity, established from the cash available in current accounts are in amount of 135,090,000 as at December 31, 2016 and 70,085,000 as at December 31, 2015.

11. 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, of which:	933,616,367	974,402,163
- cash and deposits from high-efficiency cogeneration	107,811,909	175,599,351
- cash from income related to the allocation of interconnection capacities used for grid investments	77,026,910	58,726,737
- cash from connection fee	22,532,536	35,275,358
Petty cash	44,789	48,777
Other cash equivalents	37	318
Total	**933,661,193**	**974,451,258**

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 688,114,823 as at December 31, 2016 (595,622,400 as at December 31, 2015.

12. 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 43,020,309 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 RON 733,031,420 is divided into 73,303,142 ordinary shares having a nominal value of RON 10/share and is consistent with the share capital registered with the Trade Registry Office.

12. 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	43,020,309	58,69%	43,020,309	58.69%
Other legal entity shareholders	25,797,725	35,19%	24,981,328	34.8 %
Other individual shareholders	4,485,108	6,12%	5,301,142	7.23%
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)	733,031,420	733,031,420
Share capital balance	**733,031,420**	**733,031,420**

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 194,253,326, which were paid through the Central Depositary as of June 28, 2016.

The amount of unpaid dividends as at December 31, 2016 is 1,312,744 (December 31, 2015: 1,387,237).

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 49,842,552, being the difference between the share issue price and the share nominal value, was recorded in the Company's reserve account.

Legal reserves

Legal reserves in the amount of 116,360,295 as at December 31, 2016 and 99,407,385 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. 227/2015) until the cumulative balance reaches 20% of its paid in share capital.

Revaluation reserves

The revaluation reserve amounts to 549,088,226 as at December 31, 2016 and 603,684,792 as at December 31, 2015. The latest revaluation of buildings and special installations was made as at December 31, 2015 by SC JPA Audit & Consultanta SRL, independent valuer authorized by the National Union of Authorized Valuers in Romania ("ANEVAR").

10. SHAREHOLDERS' EQUITY (continued)

Other reserves

As at December 31, 2016, other reserves amount to 56,953,728 (55,694,602 as at December 31, 2015), of which 20,952,260 represents the value of structural funds received from the Managing Authority for Sectoral Operational Program "Increase of Economic Competitiveness" and 32,718,386 represents the value of subsidies from connection tariffs, which were used to finance accepted investment works in assets that are part of the State's public domain, and RON 3,283,082 represents the value of the land for which the title deeds were obtained. As described in Note 26, 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 1,602,438,193 as at December 31, 2016 and 1,487,644,971 as at December 31, 2015.

Out of the profit obtained as at December 31, 2016 the amount of 78,045,154 was transferred to "Other reserves", of which:

- 50,582,674 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 18,845,649.79 of regulated revenue, as a correction element resulting from the tariff period July 1, 2014 – June 30, 2015 (845,649.79 lei) and from the tariff period July 1, 2015 – June 30, 2016 (18,000,000 lei), applied by ANRE when determining the average electricity transmission tariff for the tariff period July 1, 2016 – June 30, 2017. Thus, the 18,845,649.79 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.

- 27,462,480 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 278,823,063, 6,461,520 higher that the net accounting profit, because the 6,461,520 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 278,823,063, 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)	278,823,063
Allocation of accounting profit to the following destinations:	
Legal reserve (5%)	16,952,910
Other allocations provided by law - exemption of reinvested income tax	27,462,480
Other allocations provided by law – income obtained in 2016 by allocating the interconnection capacity (net of income tax and legal reserve)	50,582,674
Employees' profit sharing (expense with allowance in 2016)	6,461,520

Dividends owed to shareholders and other reserves established as own funding source	177,363,479
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 16,952,910, 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 27,462,480, 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 50,582,674 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 6,461,520 – 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 177.363.479 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.

13. 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	6,578,507	6,578,507	2,761,069	2,761,069
Deferred income – European funds	1,320,318	1,320,318	107,045	107,045
Funds from connection tariff	319,025,555	21,082,024	342,552,722	20,808,151
European funds	109,440,915	7,472,520	117,637,561	7,032,883
Other subsidies	31,618,306	1,671,705	33,071,283	2,699,096
Total	**467,983,601**	**38,125,074**	**496,129,731**	**33,408,244**

13. DEFERRED INCOME (continued)

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

	December 31, 2016	December 31, 2015
Opening balance	33,408,244	33,069,502
Cash in advance related to interconnection capacity	38,685,253	26,264,538
Collections from European funds	1,213,273	56,204
Connection fee transferred from long-term deferred income	(313,881)	26,371
Revenues from using the interconnection capacity	(34,867,815)	(25,622,519)
Revenues from European funds	-	(385,852)
Total	**38,125,074**	**33,408,244**

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

	December 31, 2016	December 31, 2015
Opening balance	462,721,487	552,768,103
Connection subsidies	(2,951,432)	(38,265,277)
Reclassification of connection subsidies to public patrimony	-	(31,459,260)
Non-refundable funds	32,742	12,418,264
Non-refundable funds to be repaid	(137,280)	(1,880,989)
Transfer to short-term deferred income	608,559	(26,371)
Release of deferred income	(30,415,549)	(30,832,983)
Total	**429,858,527**	**462,721,487**

The amount of 1,259,126 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 4.827.104 was approved. The 4,827,104 was received by the Company on July 22, 2016. According to Minutes for Acknowledgment of Inconsistencies no. 231668/11.04.2016, out of the 4,827,104 received, the Company reimbursed 137,280.

14. 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)	11,337,158	18,212,042
IBRD 7181 (b)	74,348,437	113,751,751
NIB PIL No 03/5 (c)	20,889,060	31,219,050
NIB PIL No 02/37 (d)	11,182,303	16,712,138
KfW 10431 (e)	9,521,818	19,435,029
KfW 11300 (f)	9,611,198	24,012,296
JBIC (g)	-	9,030,166
BRD (h)	-	6,600,000
EIB 25709 (i)	98,390,500	108,923,148
EIB 25710 (i)	105,910,484	116,447,869
ING+BRD (j)	95,363,100	133,020,300
Unsecured bonds (k)	200,000,000	200,000,000
Total long-term loans from credit institutions, of which:	**636,554,058**	**797,363,789**
Less: Current portion of long-term loans	**(134,624,060)**	**(162,774,045)**
Total long-term loans, net of current installments	**501,929,998**	**634,589,744**

14. 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	18,441,684.50 USD	2,634,526 USD	11,337,158	LIBOR 6M+0.9%	16.04.2018
2	BIRD 7181	15.07.2003	71,622,715.47 EUR	16,372,341 EUR	74,348,437	Latest communicated: 0.19%	15.01.2020
3	NIB PIL 03/5	12.11.2004	23,000,000.00 EUR	4,600,000 EUR	20,889,060	EURIBOR 6M+0.85%	15.09.2018
4	NIB PIL 02/37	25.02.2004	12,927,944.17 EUR	2,462,466 EUR	11,182,303	EURIBOR 6M+0.9%	17.09.2018
5	KfW 10431	12.08.2004	21,885,108.70 EUR	2,096,809 EUR	9,521,818	EURIBOR 6M+0.6%	31.07.2017
6	KfW 11300	12.08.2004	30,832,611.20 EUR	2,116,491 EUR	9,611,198	EURIBOR 6M+0.6%	31.07.2017
7	JBIC	25.06.2004	2,621,145,000.00 JPY	0 JPY	0	3.1%	15.09.2016
8	BRD	10.02.2010	33,000,000.00 RON	0 RON	0	ROBOR 6M+1.25%	31.08.2016
9	BEI 25709	05.08.2010	32,500,000.00 EUR	21,666,667 EUR	98,390,500	3.596%	10.09.2025
10	BEI 25710	05.08.2010	32,500,000.00 EUR	23,322,650 EUR	105,910,484	3.856% and 2.847%	11.04.2028
11	ING+BRD	26.07.2012	42,000,000.00 EUR	21,000,000 EUR	95,363,100	EURIBOR 6M+2.75%	13.02.2019
12	Unsecured bonds	19.12.2013	200,000,000.00 RON	200,000,000 RON	200,000,000	6.1%	19.12.2018
	TOTAL				**636,554,058**		

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 2.634.526. 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 16.372.341. 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.

14. 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 4,600,000. 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 15, 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 2.462.466. 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 2.096.809. 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 2.116.491. 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 32,500,000. EIB loan no. 25709 is not guaranteed, while EIB loan no. 25710 is guaranteed by CitiBank Europe PLC, Dublin – Romania branch. The repayment period is of 15 years with a grace period of 2 years. The repayment is scheduled from 2012 to 2025 for EIB loan no. 25709 (on 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 21,666,667 and for EIB loan 25710 is EUR 23,322,650.

14. 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 21,000,000.

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 200,000,000 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	311.711.992	133,886,282
Between 2 and 5 years	95.401.520	384,416,722
Over 5 years	94.816.486	116,286,740
Total	**501.929.998**	**634,589,744**

The Company 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 and bonds, 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.

14. BORROWINGS (CONTINUED)

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

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

Short-term loans are as follows:

	December 31, 2016	December 31, 2015
Current share of long-term loans	134,624,060	162,774,045
Interest on long and short-term loans	3,140,317	4,215,492
Interest of bonds	440,555	372,778
Total short-term loans	**138,204,932**	**167,362,315**

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 150,000,000, 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.

15. EMPLOYEE BENEFITS OBLIGATIONS

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

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

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

- retirement prizes ranging from 1 to 5 gross monthly base salaries depending on the number of years of seniority within the Company on the date of retirement;

- jubilee premiums between 1 and 5 gross monthly base salaries depending on the number of years of seniority within the Company;

- free electricity paid after retirement of 1,800 kWh / year paid according to the collective labor agreement.

The actuarial 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.

15. EMPLOYEE BENEFITS OBLIGATIONS (continued)

The employee benefits obligations are as follows:

	December 31, 2016	December 31, 2015
Jubilee premiums	20,697,649	13,779,508
Retirement benefits	11,482,723	7,722,895
Free energy provided to current and retired employees	11,033,095	13,166,892
Benefits for termination of employment contract	78,385	
Maternity premiums	13,123	-
Total	**43,304,975**	**34,669,295**

At December 31, 2016 and December 31, 2015, the Company has a present obligation regarding long-term employee benefits, amounting to RON 43,304,975 and RON 34,669,295. The estimation of these liabilities was made taking into account the following:

- electricity price at December 31, 2016 and the price expected for future periods. The price projection for the following years is calculated as a forecast based on previous observed data for energy price;
- base salary at December 31, 2016 and base salaries for future periods estimated by the actuary (an increase of 4% in the first 3 years, 3% in the 4th year and 2% in the remaining years);
- number of employees at December 31, 2016 and estimated annual number of Company employees based on projected rates of departure from the Company and statistical data on population mortality provided by INS for 2006-2016;
- discount rate estimated by the actuary is the one published by EIOPA (which is different each year); for the following year, the discount rate is the interest curve expressed in RON, without adjustments, issued by EIOPA for December 2016.

15. EMPLOYEE BENEFITS OBLIGATIONS (continued)

	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	13,779,507	594,922	702,277	1,157,904	6,778,847	20,697,649
Maternity benefits to be granted to current employees	-	184	13,335	15,370	14,974	13,123
Premiums granted upon retirement of current employees	7,722,896	339,205	1,530,731	688,300	2,578,191	11,482,723
Premiums granted for termination of labor agreement	-	761	75,646	62,222	64,200	78,385
Counter value of electricity to be paid to current employees after retirement	7,305,932	253,121	84,071	-	(964,756)	6,678,368
Counter value of electricity paid to current retirees	5,860,960	230,343	(635,368)	367,250	(733,958)	4,354,727
	34,669,295	**1,418,536**	**1,770,692**	**2,291,046**	**7,737,498**	**43,304,975**

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	1.0%

16. 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 electricity market	591,678,777	514,807,670
Suppliers of non-current assets	76,404,309	39,714,264
Other suppliers	27,546,104	28,674,364
Payables to employees	5,291,891	4,762,762
Other liabilities	173,027,119	188,208,644
Total	**873,948,200**	**776,167,704**

- As at December 31, 2016 and December 31, 2015, liabilities on balance on the energy market are in amount of 591.678.777 and 514,807,670 and are broken down as follows:

	December 31, 2016	**December 31, 2015**
Suppliers on the electricity market, of which:		
- suppliers – operations – energy	122,864,250	174,758,380
- suppliers - balancing market	286,774,831	164,652,268
- suppliers in the bonus support scheme for the promotion of high-efficiency cogeneration	182,039,696	175,397,022
Total	**591,678,777**	**514,807,670**

- 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 Company registered payment obligations to suppliers (producers) in amount of 52,490,203 (RAAN – 49,076,992, CET Govora SA – 3.368.966), 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.

16. 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 40,507,669.

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.

- 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	134,201,186	182,582,103
Advance payments from customers	29,283,054	3,014,528
Dividends payable	1,312,744	1,387,237
Other liabilities	8,230,135	1,224,776
Total	**173,027,119**	**188,208,644**

As at December 31, 2016, "Sundry creditors" in amount of 134.201.186 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 128.272.529 (December 31, 2016: 180,877,090).

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.

16. TRADE AND OTHER LIABILITIES (continued)

As at December 31, 2016, "Advance payments from customers" are in amount of 29,283,054, of which 9,842,076 represents amounts collected in advance from MAVIR and 18,886,558 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 1,312,744, of which 576,596 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 8,230,135 are mainly represented by good performance bonds of payment contracts on the electricity market concluded by CNTEE Transelectrica SA in amount of 7,986,930.

Provisions

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

	December 31, 2016	December 31, 2015
Litigation	3,351,880	3,741,368
Mandate contracts	42,354,707	26,292,781
Fund for employees' profit sharing	7,968,215	8,131,725
Other provisions	126,976	89,339
TOTAL	**53,801,778**	**38,255,213**

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	**3,741,368**	**26,292,781**	**8,131,725**	**89,339**
Additions in provisions (through profit and loss)	-	18,534,145	7,934,747	126,752
Reversal of provisions (through profit and loss)	(389,488)	(2,472,219)	(8,098,257)	(89,115)
Additions in provisions (through OCI)	-	-	-	-
Reversal of provisions (through OCI)	-	-	-	-
Closing balance as at December 31, 2016	**3,351,880**	**42,354,707**	**7,968,215**	**126,976**

Provisions for litigation outstanding as at December 31, 2016 in total amount of RON 3,351,880 consist mainly of provisions created for payroll-related litigation with employees in amount of 195,000, and for the litigation with OPCOM in amount of RON 2,670,029 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 582,086.31 (RON 2,585,161 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 1,031,000 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 84,867 as legal interest for the period 11.06.2014 – 24.11.2014, to which court expenses of 37,828 (see Note 26 *iii*) are added.

As at December 31, 2016, the Company registered a provision of 42.354.707 (26,292,781 as at December 31, 2015) for the annual variable component due to the members of the Management Board and the Supervisory Board (see Note 28).

The provision in amount of 7.968.215 is mainly represented by the provision created for the employees' profit sharing for 2016 in gross amount of 6,461,520 and for contributions payable to the State budget, in amount of 1,473,227

17. INCOME TAX

Income tax for 2016 and 2015 is as follows:

	2016	**2015**
Current income tax expense	66,696,654	74,030,075
Net income from deferred income tax	4,468,243	(4,262,006)
Total	**62,228,411**	**69,768,069**

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	**334,589,954**	**431,806,088**
Income tax at statutory rate of 16%	53,534,393	68,771,606
Effect of non-deductible expenses	21,529,593	15,892,792
Effect of non-taxable income	(5,260,670)	(7,724,846)
Taxable revaluation reserve	4,906,450	3,731,868
Legal reserve	(2,712,466)	(3,357,264)
Income tax exempted	(4,625,260)	(3,284,081)
Other effects	(5,143,629)	(4,262,006)
Total	**62,228,411**	**69,768,069**

17. 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	1,300,140	1,735,916	-	3,036,056	1,283,825	-	4,319,881
Property, plant and equipment – revaluation reserves	35,089,330	(3,708,009)	10,715,470	42,096,791	(4,520,670)	-	37,576,121
Property, plant and equipment financed by subsidies	(467,932)	(575,110)	-	(1,043,042)	(563,157)	-	(1,606,199)
Employee benefits	(4,037,548)	50,844	-	(3,986,704)	1,914,306	-	(2,072,398)
Interconnection estimate	(1,716,440)	483,430	-	(1,233,010)	(12,639)	-	(1,245,649)
Provisions	(1,957,768)	(2,249,077)	-	(4,206,845)	(2,569,908)	-	(6,776,753)
Tax (assets)/liabilities	**28,209,782**	**(4,262,006)**	**10,715,470)**	**34,663,246**	**(4,468,243)**	**-**	**30,195,003**

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	(854,269)	(451,802)	5,174,150	3,487,858	4,319,881	3,036,056
Property, plant and equipment – revaluation reserves	(4,520,669)	(8,263,112)	42,096,790	50,359,903	37,576,121	42,096,791
Property, plant and equipment financed by subsidies	(1,610,928)	(1,045,663)	4,729	2,621	(1,606,199)	(1,043,042)
Employee benefits	(2,072,398)	(4,885,772)	-	899,068	(2,072,398)	(3,986,704)
Interconnection estimate	(1,245,649)	(1,233,010)	-	-	(1,245,649)	(1,233,010)
Provisions	(6,776,753)	(4,206,845)	-	-	(6,776,753)	(4,206,845)
Net tax (assets)/liabilities	**(17,080,666)**	**(20,086,204)**	**47,275,669**	**54,749,450**	**30,195,003**	**34,663,246**

18. EARNINGS PER SHARE

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

	2016	2015
Profit for the period	**272,361,543**	**360,054,467**
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)	**3,7155**	**4,91**

19. 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	4,981,239	4,025,139
Tax on salaries	1,928,808	1,500,798
Other tax payable	1,701,162	1,237,426
Total	**8,611,209**	**6,763,363**

As at December 31, 2016, the Company registered payment obligations for contributions to the social insurance funds, tax on salaries and other taxes, which were paid in January 2017.

20. OPERATING REVENUES

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

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

	Average tariff for transmission services	Average tariff for technological system services	Average 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, 2014	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.

20. OPERATING 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 delivered to consumers (MWh)	53,523,021	52.473.065

Operating revenues obtained in 2016 and 2015 are as follows:

	2016	2015
Revenues from electricity transmission	1,056,520,255	1,174,403,322
Revenues from the allocation of the interconnection capacity	82,232,459	102,160,979
Revenues from reactive energy	6,954,413	7,794,793
Inter TSO Compensation (ITC) revenues	253,892	316,842
Revenues from transactions with own technological consumption	295,781	131,657
Total revenues from electricity transmission	**1,146,256,800**	**1,284,807,593**
Revenues from functional system services	66,139,093	67,959,911
Revenues from technological system services	648,801,922	662,002,989
Revenues from unplanned exchanges on DAM	1,398,572	1,242,373
Total revenues from system services	**716,339,587**	**731,205,273**
Balancing market	814,079,670	923,035,364
Other revenues	45,827,232	45,537,871
Total revenues	**2,722,503,289**	**2,984,586,101**

Revenues from electricity transmission

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 117.883.067determined 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).

Revenues from functional system services

In 2016, revenues from functional system services decreased from 1,820,818 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.

20. OPERATING 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 13.201.067 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 87,774,549 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.

21. 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	182,980,673	187,003,922
Congestion costs	2,931,330	1,013,340
Electricity consumption in ETG stations	15,382,428	14,078,458
Expenses with functional system services	12,687,230	12,151,400
ITC expenses (Inter TSO Compensation)	16,775,121	17,604,242
Total operating expenses	**230,756,782**	**231,851,362**
Expenses with technological system services	561,027,373	637,652,613
Balancing market expenses	814,079,670	923,035,364
Total	**1,605,863,825**	**1,792,539,339**

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 4,023,249 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.

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

Expenses with electricity consumption in the ETG stations

The increase of 1,303,970 registered in 2016 compared to 2015 was the result of reclassifying some of the expenses with electricity consumption int he ETG stations initially registered as *Other third party services*.

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 829,121 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.

22. EMPLOYEE-RELATED EXPENSES

i) Employee-related expenses

	2016	2015
Employees' salaries	123,760,248	123,752,668
Social expenses	6,011,964	3,899,877
Employees' tickets	9,004,373	4,021,158
Employees' profit sharing in the previous year	6,603,220	6,352,075
Expenses with the mandate contract and other committees	3,579,344	1,590,083
Social security	38,384,677	33,109,483
Provisions for salaries and similar expenses	23,629,139	12,214,296
Other expenses	894,401	1,374,404
Total	**211,867,366**	**186,314,044**

The increase of employee-related expenses in 2016 compared to 2015 was mainly due to:

- the increase of social expenses within the deductible limit of 4.9% applied to expenses incurred with employees' salaries (according to Law no. 227/2015), by 2,112,087.

In 2015, the level of social expenses was determined by applying a share of 2% on the value of salary expenses. According to Law no. 227/2015 on the Tax Code, as of 2016, the deductibility of social expenses is set within the limit of a share of up to 5% of the value of expenses with employees' salaries.

- the increase of expenses with tickets granted to employees further to the distribution in 2016 of vacation tickets for the Company's employees, in amount of 4,931,214;
- the increase of expenses with mandate contracts (by 26,989 for fixed component and by 1,962,272 for variable component), including the related employer's contributions;
- the registration of expenses with the company's contribution to the optional pension plans (3rd Pillar) for the Company's employees who joined separately an optional pension fund, in amount of 3,427,790 (in 2015, the expenses with the company's contribution to optional pension plans were incurred starting December);
- the increase of expenses with the setting of provisions for mandate contracts and provisions for other salary and similar expenses.

ii) Average number of employees

As at December 31, 2016 and December 31, 2015 the average number of employees working under an indefinite individual employment contract is:

	2016	2015
Average number of employees	2,180	2,180

iii) Structure of employees

As at December 31, 2016 and December 31, 2015 the Company's employees are classified as follows:

Staff categories	Number of employees	
	2016	2015
Operative and operating (as per legislation), of which:	**1,747**	**1,739**
DEN	186	184
Operating personnel in sub-stations, telecontrol centers and exploitation centers	990	982
Reception staff	114	117
OMEPA staff directly involved in production activities – exploitation centers, resolution of inconsistencies, tele-measurement systems, relations with market participants	40	38
Staff directly involved in organizing and monitoring the exploitation activities in stations	417	418
Support staff and executive management	**433**	**441**
TOTAL	**2,180**	**2,180**

23. OTHER OPERATING EXPENSES

	2016	**2015**
Other third party services	50,087,334	50,144,940
Postage and telecommunications	1,295,971	1,902,323
Rent	7,846,021	8,168,817
Impairment allowances for current assets	21,323,130	4,870,837
Other expenses, of which	53,167,911	76,537,537
- taxes and levies (tax of special constructions, tax on natural monopoly, other local taxes and levies)	21,616,404	26,123,190
- the revaluation of tangible and intangible assets	0	14,294,633
- provisions for other operating expenses	3,929,041	8,793,993
- travels	6,369,871	6,867,209
- international contributions	3,012,478	3,037,274
- disasters and other subsequent events (registered with ST Cluj, ST Constanta, ST Sibiu and ST Timisoara)	140,723	2,382,465
- electricity purchased for administrative consumption	2,333,148	2,350,976
- delay increases	2,270,654	86
- commodities	2,070,747	333,621
- studies and research	1,210,352	2,237,693
- banking and similar services	1,355,695	1,626,116
- employees' travels	1,137,217	1,176,522
- disposed tangible and intangible assets and other capital operations	272,673	1,118,919
- natural gas purchased	984,042	1,020,323
- other operating expenses	6,464,866	5,174,517
Total	**133,720,367**	**141,624,454**

In 2016, Other operating expenses decreased by 7,904,087 compared to 2015 mainly due to:
- decreases in certain categories of expenses, of which:
  - tax of special constructions, by 5,207,096, 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 14,294,633 – in 2015, the tangible and intangible assets were revalued;
  - expenses with provisions for other operating expenses, by 4,864,952, 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 2,270,568, further to the registration of penalties for high efficiency cogeneration (RAAN by 1,090,832 and Electrocentrale Bucuresti by 1,171,179);
  - expenses with commodities, by 1,737,126, 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 16,452,293, following the registration of allowances for doubtful customers or customers in insolvency in 2016 (CE Hunedoara, CET Govora, Romenergy Industry, UGM Energy, etc.).

24. NET FINANCIAL RESULT

	2016	**2015**
Interest income	5,666,055	10,015,772
Foreign exchange gains	21,157,006	30,276,471
Other financial income	3,136,969	7,801,306
Total financial income	**29,960,030**	**48,093,549**
Interest expenses	(23,995,214)	(28,483,676)
Foreign exchange losses	(22,407,867)	(38,442,206)
Other financial expenses	(585,227)	0
Total financial expenses	**(46,988,308)**	**(66,925,882)**

Net financial result	**(17,028,278)**	**(18,832,333)**

The 6,914,874 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 was higher by 1,804,055 compared to 2015, due to the decrease of financial expenses in the context of a decrease of financial income following the reduction of dividends received by subsidiaries OPCOM and TELETRANS.

25. THE LEGISLATIVE AND FISCAL FRAMEWORK

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

26. COMMITMENTS AND CONTINGENCIES

i) Commitments

As at December 31, 2016 and December 31, 2015, the Company had commitments amounting to 1.036.117.363 and 563,086,673 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.

26. 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 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 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 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 Mehedinţi 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 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 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 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 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.”

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[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%*

26. 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 – 6th Civil Section 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 9.

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

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

	2016	**2015**
Guarantees granted, of which:	**461,878,512**	**361,177,217**
- letters of guarantee issued – production	36,325,204	36,145,127

- letters of guarantee issued – investments	238,616,854	325,004,986
- other guarantees granted	186,936,454	27,104
Guarantees received, of which:	**502,121,541**	**446,215,564**
- letters of guarantee received – production	220,878,950	158,925,722
- letters of guarantee received – investments	233,729,248	239,771,049
- other guarantees received	47,513,343	47,518,793

Guarantees granted

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 29,422,392 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.

v) Revaluation reserves as at December 31, 2016

As at December 31, 2016, revaluation reserves are in amount of 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.

26. 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).

27. RELATED PARTIES

i) Subsidiaries held by the Company

Entity	Home country	December 31, 2016 % of shares	December 31, 2015 % of shares
SMART SA *)	Romania	70	70
TELETRANS SA	Romania	100	100
ICEMENERG SA **)	Romania	-	-
OPCOM SA	Romania	100	100
FORMENERG SA	Romania	100	100
ICEMENERG SERVICE SA	Romania	100	100

The value of the shares held by the Company in its subsidiaries amounts to 78,038,750 as at December 31, 2016 and 55,944,450 as at December 31, 2015, registering an increase due to the increase of share capital of SC OPCOM SA by RON 22,587,300 by in-kind contribution of shareholder CNTEE Transelectrica SA and a decrease due to the registration of an impairment in amount of 493,000 for shares held in Subsidiary SC ICEMENERG SERVICE SA.

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

The amendment of the constitutive act of SC OPCOM SA, based on EGMS Resolution no. 6/15.06.2016, was registered at the Trade Registry Office according to the Certificate for Registration of Specifications of 11.07.2016.

The cost of the Company's participations in its subsidiaries is detailed below:

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 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.

*) There was 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.

In file no. 32675/3/2015, 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 was judged in the court hearing of May 23, 2016, when the Bucharest Court of Appeal delivered Civil Judgment no. 903/23.05.2016, in which it ordered as follows: "Rejects the appeal as ungrounded. Admits the application for notification of the Constitutional Court. According to Art. 29 para. 4 of Law no. 47/1992, it notifies the Constitutional Court to settle the exception of unconstitutionality of the provisions of Art. 114 para. 3 of Law no. 31/1990 by reference to the provisions of Art. 16, Art. 21 and Art. 44 of the Constitution, which was invoked by the appellant. Final."

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 6,874,430 subscribed and fully paid in.

SC ICEMENERG SA

SC "Filiala Institutul de Cercetări şi Modernizări Energetice" – ICEMENERG SA, with registered office at B-dul Energeticienilor nr. 8, sector 3, Bucharest has as main activities research and development in physical and natural sciences, innovation, studies, development strategies, design, city planning, engineering and other technical services. It was set up as per Government Resolution no. 1065/ September 4, 2003. The share capital as of December 31, 2016 subscribed and fully paid in by the Company was in amount of 1,083,450.

**) On April 7, 2014 File no. 121452/03.04.2014 was admitted by the National Trade Registry Office for deregistration of Filiala Institutul de Cercetari si Modernizari Energetice – ICEMENERG SA Bucharest. By Order no. 123/13.03.2014 (registration and authorization of operation), "Institutul National de Cercetare-Dezvoltare pentru Energie Bucuresti" was registered with the Trade Registry (GR no. 925/2010).

The Company filed complaint against the decision of the Director of the Trade Registry Office who ordered the listing of the deregistration of Subsidiary ICEMENERG SA Bucharest from the Trade Registry.

Civil Section VI of the Bucharest Tribunal, by Sentence no. 3569/14.07.2014 issued in File no. 15483/3/2014 the Company v. defendants Filiala Institutul de Cercetari si Modernizari Energetice ICEMENERG S.A. Bucharest and the

National Institute for Research and Development for Energy - Icemenerg Bucharest, rejected the Company's complaint on grounds that GR no. 925/2010 had not been repealed upon the deregistration from the Trade Registry.

On February 24, 2015 the Court of Appeal published the ruling issued in File no. 15483/3/2014, i.e., Decision no. 173/2015 which rejected the appeal of CNTEE Transelectrica SA as ungrounded. The decision is final.

Against Decision no. 173/2015 of the Bucharest Court of Appeal, Transelectrica SA filed an appeal for annulment, object of File no. 1088/2/2015 registered with the Bucharest Court of Appeal – Civil Section VI, scheduled for 13.05.2015. On 13.05.2015, by Decision no. 777/2015, the Bucharest Court of Appeal rejected the appeal for annulment as ungrounded. The decision is final.

In the meetings of 28.03.2016 and 30.08.2016, EGAS did not approve the decrease of the share capital of CNTEE Transelectrica SA by RON 1,084,610, representing the share capital subscribed and paid in of Subsidiary ICEMENERG SA Bucharest, by reducing the holding of the Romanian State in the share capital of CNTEE Transelectrica SA, in compliance with the provisions of GR no. 925/2010.

The Company registered in 2015 an impairment allowance of 1,083,450 for the shares held in Filiala Institutul de Cercetari si Modernizari Energetice – ICEMENERG SA Bucharest, which was deregistered.

27. RELATED PARTIES (CONTINUED)

SC OPCOM SA

SC OPCOM SA with its registered office at Blvd. Hristo Botev nr.16-18 sector 3, Bucharest, with legal personality, has as its main object of activity the organization, administration and supervision of the energy market and was established by GR no. 627/2000. The share capital as at December 31, 2016 is RON 30,687,300 subscribed and fully paid in.

In 2016, the share capital of SC OPCOM SA was increased by 22,587,300, by in-kind contribution of shareholder CNTEE Transelectrica SA.

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

The amendment of the constitutive act of SC OPCOM SA, based on EGMS Resolution no. 6/15.06.2016, was registered at the Trade Registry Office according to the Certificate for Registration of Specifications of 11.07.2016.

SC FORMENERG SA

SC FORMENERG SA with its registered office at Blvd. Gh. Sincai nr. 3, sector 4, Bucharest, with legal personality, has as its main object of activity the initial and continuous training of energy personnel in all fields of activity, and of other beneficiaries and was established by Resolution no. 33/2001 of the GMS. The share capital as at December 31, 2016 is RON 1,948,420 subscribed and fully paid in.

SC ICEMENERG SERVICE SA

SC ICEMENERG SERVICE SA with its registered office in Bucharest, Bd. Energeticienilor nr. 8, sector 3 has as its object of activity the design, manufacturing, implementation, repair, modernization and marketing of machines, equipment, specialized plant in the country and abroad. GR no. 2294/09.12.2004 approved the transfer of the package of shares held by Filiala "Institutul de Cercetari si Modernizari Energetice – ICEMENERG" - S.A. Bucuresti in Filiala "ICEMENERG-SERVICE" - S.A. Bucharest to the National Power Grid Company "Transelectrica" - S.A. The share capital as at December 31, 2016 is RON 493,000 subscribed and fully paid in.

By Resolution no. 17/28.02.2017, the Company's Directorate mandated the representative of CNTEE Transelectrica SA in the GMS of ICEMENERG SERVICE to vote at item 2 on the agenda of the Extraordinary General Meeting of Shareholders of ICEMENERG SERVICE to adopt the following resolution:

"According to Art. 66 para. (5) second phrase of Law no. 85/2014 on procedures for preventing insolvency and the insolvency procedures, as subsequently amended and supplemented, the General Meeting of Shareholders approves the application of the simplified procedure as regards Subsidiary ICEMENERG SERVICE – SA".

The Company registered in 2016 an impairment of 493,000 for shares held in Subsidiary SC ICEMENERG SERVICE SA.

ii) Related parties – main economic and financial ratios obtained by the Company's subsidiaries as at 31.12. 2015

The main economic and financial ratios obtained by the Company's subsidiaries as at December 31, 2015 (the last financial year for which the financial statements were approved) are as follows:

No.	Name	SMART	TELETRANS	OPCOM	FORMENERG	ICEMENERG SERVICE
1.	Turnover	84,844,816	40,137,103	26,828,677	3,956,720	980,381
2.	Gross profit/(loss)	(5,232,642)	4,643,104	2,799,845	(670,508)	(3,550,431)
3.	Share capital	55,036,300	6,874,430	8,100,000	1,948,420	493,000
4.	Reserves	4,232,189	15,863,184	7,980,300	1,721,952	12,709
5.	Equity - total	85,789,875	38,123,888	22,574,987	14,778,776	(1,923,521)

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

As at December 31, 2016 and December 31, 2015 the outstanding balances with subsidiaries are presented below:

Related party	Trade receivables		Trade payables	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
SC SMART SA	404,257	329,312	15,471,838	6,793,767
SC TELETRANS SA	267,525	375,248	6,531,203	7,426,123
SC FORMENERG SA	-	-	3,960	3,959
SC OPCOM SA	30,921,913	1,520,332	6,747,421	804,549
SC ICEMENERG SERVICE SA	-	92,231	-	-
TOTAL	**31,593,695**	**2,317,123**	**28,754,422**	**15,028,398**

The transactions with subsidiaries during 2016 and 2015 are detailed below:

Related party	Sales		Purchases	
	2016	2015	2016	2015
SC SMART SA	1,064,431	885,045	79,564,566	80,879,586
SC TELETRANS SA	2,879,312	6,276,522	32,619,227	33,882,627
SC FORMENERG SA	-	-	158,301	703,498
SC OPCOM SA	342,103,814	516,125,188	153,759,926	69,428,748
SC ICEMENERG SERVICE SA	-	-	-	-
TOTAL	**346,047,557**	**523,286,755**	**266,102,020**	**184,894,459**

In 2016, the Company received dividends from the following subsidiaries:

- SC SMART SA – 0 (1,206 in 2015);
- SC TELETRANS SA – 1,819,170 (5,167,611 in 2015);
- SC OPCOM SA – 1,218,069 (1,902,445 in 2015).

iv) Transactions with other State-owned companies

The Company is a majority State-owned company.

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

The value of the Company’s transaction with State controlled entities or over which the State has significant influence account for an important share of sales and purchases registered in the year ended December 31, 2016.

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

During 2016, the Company collected the amount of 4.827.104 for the "Upgrading of 400/110/20 kV Tulcea Vest Substation”, amount corresponding to the non-refundable financing contract concluded with the Ministry of Economy, as Intermediary Body for Energy in the name and on behalf of the Managing Authority for the Sectoral Operational Program “Increasing of Economic Competitiveness”. According to Minutes for Acknowledgment of Inconsistencies no. 231668/11.04.2016, of the received 4,827,104, the Company reimbursed 137,280 (Note 13).

28. REMUNERATION OF COMPANY’S MANAGEMENT

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

	2016	**2015**
Management employed based on IEC		
Short-term employee benefits	10,269,611	10,076,603
Other long-term benefits	266,803	213,191
Members of the Management Board and the Supervisory Board		
Fixed component	1,566,138	1,538,390
Variable component	2,013,206	50,934
Total	**14,115,758**	**11,879,118**

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 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)

28. REMUNERATION OF COMPANY'S MANAGEMENT (continued)

As at December 31, 2016 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	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 granted 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 Company recorded a provision in amount of 42,354,707 (26,292,781 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.

29. FINANCIAL INSTRUMENTS

Financial risk management

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

The Company 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 Company in order to make sure that the opportunities and threats are matched efficiently.

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

Interest rate risk

The Company's operating cash flows are affected mainly by changes in interest rates, due to the foreign currency long-term borrowings with variable interest rates contracted from external credit institutions. The Company 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	478,649,422	548,152,934
Variable rate instruments		
Financial liabilities	161,485,508	249,210,855

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

29. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis of interest rate

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	(5,323)	(66,000)
EUR	(1,325,060)	(1,243,988)
USD	(21,266)	(182,000)
Total	**(1,351,649)**	**(2,492,109)**

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	5,323	66,000
EUR	1,325,600	1,243,988
USD	21,266	182,000
Total	**1,351,649**	**2,492,109**

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

Foreign exchange risk

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

The Company's functional currency is RON. The Company is exposed to foreign currency risk on cash and cash equivalents, purchases and borrowings that are denominated in a currency other than the functional currency. The currencies giving rise to this risk are primarily EUR, USD and 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 Company's exposure to foreign currency risk, expressed in RON, was as follows:

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

29. FINANCIAL INSTRUMENTS (continued)

December 31, 2015	Value	RON	EUR	USD	JPY
Monetary assets	974,451,258	944,442,191	29,987,065	11,001	11,001
Cash and cash equivalents	70,085,000	70,085,000	-	-	-
Other financial assets					
Receivables	723,447,541	719,823,590	3,623,951	-	-
Gross exposure	**1,767,983,799**	**1,734,350,781**	**33,611,016**	**11,001**	**11,001**
Monetary liabilities					
Suppliers of fixed assets	766,167,704	681,117,769	95,049,935	-	-
Borrowings	801,952,059	206,972,778	567,598,800	18,268,252	9,112,229
Gross exposure	**1,578,119,763**	**888,090,547**	**662,648,735**	**18,268,252**	**9,112,229**
Net balance sheet exposure	**189,864,036**	**846,260,234**	**(629,037,719)**	**(18,257,251)**	**(9,101,228)**

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	42,631,441	62,903,772
USD	1,133,218	1,825,725
JPY	-	910,123
Total	**43,764,658**	**65,639,620**

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	(42,631,441)	(62,903,772)
USD	(1,133,218)	(1,825,725)
JPY	-	(910,123)
Total	**(43,764,658)**	**(65,639,620)**

29. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

The treatment of counterparty risk is based on internal and external success factors of the Company. 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 Company to collection risk, consist principally of trade receivables and cash and cash equivalents. The Company 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, Credit Europe Bank, Garanti Bank, Alpha 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	764,760,133	596,310,217
Other net receivables	87,211,550	127,137,324
Cash and cash equivalents	933,661,193	70,085,000
Other financial assets	135,090,000	974,451,258
	1,920,722,876	**1,767,983,799**

The age of 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	639,151,930	4,568,505	493,063,746	1,147,819
Past due 1 – 30 days	12,638,227	-	6,530,607	113,324
Past due 31 – 90 days	5,519,233	-	1,608,587	266,257
Past due 90 – 180 days	836,994	359,345	11,072,875	10,211,818
Past due 180 –270 days	27,274,940	7,725,361	15,399,044	1,421,579
Past due 270 –365 days	6,206,328	-	6,880,773	2,383,145
More than one year	173,710,511	87,924,820	149,741,082	72,442,556
Total	**865,338,164**	**100,578,031**	**684,296,715**	**87,986,497**

29. 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	64,477,570	323,854	109,251,224	3,826,053
Past due 1 – 30 days	15,861	8,810	6,430,436	396,081
Past due 31 – 90 days	56,503	30,487	1,270,335	-
Past due 90 – 180 days	6,064,159	4,791,499	2,424,895	18,666
Past due 180 –270 days	2,317,148	669,292	4,608,277	2,504,276
Past due 270 –365 days	3,159,723	594,621	5,796,415	144,524
More than one year	101,200,666	83,661,517	81,515,502	77,270,160
Total	**177,291,630**	**90,080,080**	**211,297,084**	**84,159,760**

The Company 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	**87,986,497**	**87,246,448**
Recognition of provisions	21,129,610	22,802,474
Provision write-off	(8,538,076)	(22,062,425)
Balance at the end of the year	**100,578,031**	**87,986,497**

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

	December 31, 2016	December 31, 2015
Balance as at January 1	**84,159,760**	**80,972,239**
Recognition of provisions	7,501,245	7,059,855
Provision write-off	(1,580,925)	(3,872,334)
Balance at the end of the year	**90,080,080**	**84,159,760**

29. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

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

A prudent 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	1,847,220,562	1,734,350,781
Monetary assets in foreign currency	83,277,273	33,633,018
	1,930,497,835	**1,767,983,799**
Liabilities		
Monetary liabilities in RON	(1,001,770,284)	(888,090,547)
Monetary liabilities in foreign currency	(520,923,855)	(690,029,216)
	(1,522,694,139)	**(1,578,119,763)**
Net monetary position in RON	**845,450,278**	**846,260,234**
Net monetary position in foreign currency	**(437,646,582)**	**(656,396,198)**

The Company'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	(873,948,200)	(873,948,200)	(873,948,200)	-	-	-
Other tax and social security liabilities	(8,611,209)	(8,611,209)	(8,611,209)	-	-	-
Borrowings	(640,134,730)	(1,622,599,794)	(138,204,894)	(311,711,992)	(95,401,520)	(94,816,486)
Total	**(1,522,694,139)**	**(2,505,159,203)**	**(1,020,764,303)**	**(311,711,992)**	**(95,401,520)**	**(94,816,486)**

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	(776,167,704)	(776,167,704)	(759,834,700)	(16,333,004)	-	-
Other tax and social security liabilities	(6,763,363)	(6,763,363)	(6,763,363)	-	-	-
Borrowings	(801,952,059)	(1,604,641,669)	(167,362,306)	(133,886,273)	(384,416,697)	(116,286,783)
Total	**(1,584,883,126)**	**(1,847,572,736)**	**(933,960,369)**	**(150,219,277)**	**(384,416,697)**	**(116,286,783)**

29. 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			
Trade receivables	764,760,133	764,760,133	Level 1
Other net receivables	87,211,550	87,211,550	Level 1
Cash and cash equivalents	933,661,193	933,661,193	Level 1
Non-refundable funds receivable	135,090,000	135,090,000	Level 1
	1,951,132,524	**1,951,132,524**	

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

December 31, 2015	**Carrying amount**	**Fair value**	**Level**
Financial assets			
Trade receivables	596,310,217	596,310,217	Level 1
Other net receivables	127,137	127,137	Level 1
Cash and cash equivalents	974,451,258	974,451,258	Level 1
Non-refundable funds receivable	70,085,000	70,085,000	Level 1
	1,767,983,799	**1,767,983,799**	

December 31, 2015	**Carrying amount**	**Fair value**	**Level**
Non-current financial liabilities			
Borrowings, except for bonds	434,589,752	434,589,752	Level 1
Bonds	200,000,000	200,000,000	Level 1
	634,589,752	**634,589,752**	
Current financial liabilities			
Trade payables and suppliers of non-current assets	776,167,704	776,167,704	Level 1
Borrowings	167,362,306	167,362,306	Level 2
Liabilities towards employees and other liabilities	6,763,363	6,763,363	Level 1
	950,293,373	**950,293,373**	

29. FINANCIAL INSTRUMENTS (continued)

Categories of financial assets

	December 31, 2016	December 31, 2015
Financial assets		
Cash and bank balances	1,068,751,193	1,044,536,268
Receivables	861,746,642	723,447,541
Financial liabilities		
Amortized cost	1,522,694,139	1,584,883,126

Personnel risk and the salary scheme

As at December 31, 2016, the average age of the Company's personnel is quite high. It is likely that in the nearest future, the Company will face a lack of personnel due to natural causes.

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

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

Capital risk management

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

Gearing ratio

	December 31, 2016	December 31, 2015
Short and long-term borrowings	640,134,930	801,952,059
Cash and cash equivalents	(933,661,193)	(974,451,258)
Other financial assets	(135,090,000)	(70,085,000)
	(428,616,263)	**(127,484,290)**
Equity	3,107,714,414	3,029,305,722
Gearing ratio	-	-

30. FEES CHARGED BY EACH STATUTORY AUDITOR OR AUDIT FIRM

The total fees charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax consultancy services and for non-audit services according to Art. 38 of Annex no. 1 to 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.

31. 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 separate 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