

**C.N.T.E.E. TRANSELECTRICA SA
TWO-TIER COMPANY**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**ON THE DATE AND FOR THE SIX-MONTH PERIOD ENDED
JUNE 30th, 2017**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL ACCOUNTING STANDARD 34 –“INTERIM FINANCIAL REPORTING”
ADOPTED BY THE EUROPEAN UNION**

C.N.T.E.E. TRANSELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30th, 2017
(all amounts are expressed in thousand RON, unless otherwise provided)

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C.N.T.E.E. TRANSELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30th, 2017
(all amounts are expressed in thousand RON, unless otherwise provided)

	<u>Note</u>	<u>June, 30</u> <u>2017</u> <i>(unaudited)</i>	<u>December, 31</u> <u>2016</u> <i>(audited)</i>
Assets			
Fixed Assets			
Tangible Assets	4	3,185,180	3,254,345
Intangible Assets	4	15,654	14,775
Other investments		32,636	32,636
Long Term Receivables	5	6,534	9,775
Total non-current assets		3,240,004	3,311,531
Current assets			
Inventories		48,638	45,475
Trade and other receivables	6	848,497	864,332
Other financial assets	7	165,100	135,090
Cash and cash equivalents	8	660,911	960,489
Total current assets		1,723,146	2,005,386
Total assets		4,963,150	5,316,917
Shareholders' Equity and Liabilities			
Shareholders' Equity			
Share capital		733,031	733,031
Share premium		49,843	49,843
Legal reserves		116,552	116,552
Other reserves		57,627	57,627
Revaluation reserves		433,077	458,184
Retained earnings		1,663,758	1,714,462
Total equity attributable to the owners of the Group	9	3,053,889	3,129,699
Non-controlling interests		3,204	5,484
Total Shareholders' Equity		3,057,093	3,135,183
Non-current liabilities			
Long-term deferred income	10	421,679	433,692
Borrowings	11	444,873	501,930
Deferred tax liability		28,426	32,565
Employee benefits obligations		58,050	58,050
Total non-current liabilities		953,028	1,026,237

The accompanying notes form an integral part of these condensed consolidated interim financial statements
Free translation from the original Romanian version

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AS AT JUNE 30th, 2017
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	<u>Nota</u>	<u>June, 30 2017 (unaudited)</u>	<u>December, 31 2016 (audited)</u>
Current liabilities			
Trade and other liabilities	12	649,427	877,058
Provisions		47,235	55,274
Other social security taxes and liabilities	15	12,039	12,291
Borrowings	11	197,709	155,548
Short-term deferred income	10	38,489	38,025
Income tax payable		8,130	17,301
Total current liabilities		953,029	1,155,497
Total liabilities		1,906,057	2,181,734
Total Shareholders' Equity and Liabilities		4,963,150	5,316,917

The condensed consolidated interim financial statements presented were approved by the management on October 26, 2017 and executed on its behalf by:

Directorate,

Georgeta – Corina POPESCU
President of the Directorate

**Florin – Cristian
TATARU**
Member

**Andreea Georgiana
FLOREA**
Member

**Mircea - Toma
MODRAN**
Member

**Dan - Valeriu
ARDELEAN**
Member

Cristina STOIAN
Accounting and
Financial Strategy
Director

Cristiana ZIRNOVAN
Budgeting and
Managerial Reporting
Manager

C.N.T.E.E. TRANSELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX-MONTH PERIOD ENDED JUNE, 30th, 2017
(all amounts are expressed in thousand RON, unless otherwise provided)

	<u>Note</u>	<u>Six-month period ended June 30th, 2017 (unaudited)</u>	<u>Six-month period ended June 30th 2016 (unaudited)</u>
Revenues			
Transmission Revenues		554,006	595,103
System Service Revenues		355,378	366,524
Revenues from the Balancing Market		805,048	366,613
Other Revenues		<u>27,063</u>	<u>28,537</u>
Total revenues	16	<u>1,741,495</u>	<u>1,356,777</u>
Operating Expenses			
System Operating Expenses	17	(129,083)	(120,483)
Expenses on the Balancing Market	17	(805,048)	(366,613)
Technological system services expenses	17	(319,024)	(332,973)
Depreciation		(160,775)	(168,187)
Salaries and Other Retributions		(116,503)	(114,581)
Repairs and Maintenance		(19,921)	(19,132)
Spare parts, consumables and other materials		(9,643)	(11,827)
Other Operating Expenses	18	<u>(63,965)</u>	<u>(49,850)</u>
Total operating expenses		<u>(1,623,962)</u>	<u>(1,183,646)</u>
Operating profit		<u>117,533</u>	<u>173,131</u>
Financial Revenues		12,215	16,393
Financial Expenses		<u>(20,719)</u>	<u>(23,923)</u>
Net finance result	19	<u>(8,505)</u>	<u>(7,530)</u>
Profit before income tax		<u>109,028</u>	<u>165,601</u>
Income tax expense	13	<u>(21,417)</u>	<u>(33,787)</u>
Profit for the year		<u>87,612</u>	<u>131,814</u>

C.N.T.E.E. TRANSELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX-MONTH PERIOD ENDED JUNE, 30th, 2017
(all amounts are expressed in thousand RON, unless otherwise provided)

	<u>Nota</u>	<u>Six-month period ended June 30th, 2017 (<i>unaudited</i>)</u>	<u>Six-month period ended June 30th, 2016 (<i>reviewed</i>)</u>
Attributable to:			
Group owners		89,912	133,608
Non-controlling interests		<u>(2,300)</u>	<u>(1,794)</u>
Basic and diluted earnings per share (RON/share)	14	<u>1,20</u>	<u>1,80</u>
Profit for the year		<u>87,612</u>	<u>131,814</u>
Other elements of comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>87,612</u>	<u>131,814</u>

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**Florin – Cristian
TATARU**
Member

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FLOREA**
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**Mircea - Toma
MODRAN**
Member

**Dan - Valeriu
ARDELEAN**
Member

Cristina STOIAN
Accounting and
Financial Strategy
Director

Cristiana ZIRNOVAN
Budgeting and
Managerial Reporting
Manager

C.N.T.E.E. TRANSELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30th, 2017
(all amounts are expressed in thousand RON, unless otherwise provided)

	Share capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Attributable to the owners of the Group	Non-controlling interests	Total
Balance as at December 31st, 2015 (audited)	733,031	49,843	99,599	512,781	56,368	1,608,506	3,060,128	11,645	3,071,773
Comprehensive income for the year	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	131,814	131,814		131,814
Total comprehensive income for the year	-	-	-	-	-	131,814	131,814	-	131,814
Other elements:									
Transfer of revaluation reserves to retained earnings	-	-	-	(28,156)	-	28,156	-		-
Structural funds related to non-current assets in the form of public patrimony	-	-	-	-	944	-	944	-	944
Non-controlling interests arising from decrease of ownership in SMART	-	-	-	-	-	1,795	1,795	(1,795)	-
Total other elements	-	-	-	(28,156)	944	29,951	2,739	(1,795)	944
Contributions by and distributions to shareholders, of which:	-	-	-	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	(194,253)	(194,253)	-	(194,253)
Total tranzactii cu proprietarii	-	-	-	-	-	(194,253)	(194,253)	-	(194,253)
Balance as at June 30 2016 (reviewed)	733,031	49,843	99,599	484,625	57,312	1,576,018	3,000,428	9,850	3,010,278

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Directorate,

Georgeta – Corina POPESCU President of the Directorate	Florin - Cristian TATARU Member	Andreea Georgiana FLOREA Member	Mircea - Toma MODRAN Member	Dan - Valeriu ARDELEAN Member	Cristina STOIAN Accounting and Financial Strategy Director	Cristina ZIRNOVAN Budgeting and Managerial Reporting Manager
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The accompanying notes form an integral part of these condensed consolidated interim financial statements
Free translation from the original Romanian version

C.N.T.E.E. TRANSELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30th, 2017
(all amounts are expressed in thousand RON, unless otherwise provided)

	Share capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Attributable to the owners of the Group	Non-controlling interests	Total
Balance as at December 31, 2016 (audited)	733,031	49,843	116,552	458,184	57,627	1,714,462	3,129,699	5,484	3,135,183
Comprehensive income for the year	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	87,612	87,612	-	87,612
Total comprehensive income for the year	-	-	-	-	-	87,612	87,612	-	87,612
Other elements									
Transfer of revaluation reserves to retained earnings	-	-	-	(25,046)	-	25,046	-	-	-
Related subsidies (connection tax)	-	-	-	-	-	-	-	-	-
Non-controlling interests arising from decrease of ownership in SMART	-	-	-	-	-	2,280	2,280	(2,280)	-
Other	-	-	-	(61)	-	(197)	(257)	-	(257)
Total other elements	-	-	-	(25,107)	-	27,130	2,023	(2,280)	(257)
Contributions by and distributions to shareholders, of which:	-	-	-	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	(165,445)	(165,445)	-	(165,445)
Total transactions with owners	-	-	-	-	-	(165,445)	(165,445)	-	(165,445)
Balance as at June 30th, 2017 (unaudited)	733,031	49,843	116,552	433,077	57,627	1,663,758	3,053,889	3,204	3,057,092

The condensed consolidated interim financial statements presented were approved by the management on October 26, 2017 and executed on its behalf by:

Georgeta – Corina POPESCU President of the Directorate	Florin - Cristian TATARU Member	Andreea Georgiana FLOREA Member	Mircea - Toma MODRAN Member	Dan - Valeriu ARDELEAN Member	Cristina STOIAN Accounting and Financial Strategy Director	Cristiana ZIRNOVAN Budgeting and Managerial Reporting Manager
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The accompanying notes form an integral part of these condensed consolidated interim financial statements
Free translation from the original Romanian version

C C.N. TRANSELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX-MONTH PERIOD ENDED JUNE 30th, 2017
(all amounts are expressed in thousand RON, unless otherwise provided)

	Six-month period ended June 30, 2017 <i>(unaudited)</i>	Six-month period ended June 30, 2016 <i>(unaudited)</i>
Cash flows from operating activities:		
Profit for the year	87,612	131,814
Adjustments for:		
Income tax expense	21,097	33,787
Depreciation Expenses	160,775	168,187
Provisions Expenses from Depreciating of non-current assets	785	2,147
Expenses with allowances for impairment of trade and other receivables	34,708	14,997
Income from reversal of allowances for impairment of trade and other receivables	(7,155)	(3,073)
Income from reversal of provisions for risks and expenses	(8,391)	(10,075)
Net (profit) / loss on sale of tangible assets	427	(78)
Expenses with interest, interest income and unrealized income from foreign exchange differences	8,400	9,131
	298,259	346,837
Changes in:		
Clients and similar accounts	(23,238)	(31,283)
Inventories	(3,163)	(858)
Trade Payables and Other Liabilities	(254,536)	(113,899)
Other tax and social security liabilities	(252)	14,811
Deferred income	(11,550)	(16,530)
Cash flows from operating activity	5,520	182,711
Interest paid	(5,324)	(6,900)
Income tax paid	(320)	(38,647)
Net cash generated from operating activity	(124)	137,164
Cash flows used in investing activity:		
Acquisition of tangible and intangible assets	(87,325)	(73,803)
Proceeds from sale of tangible assets		78
Advances not used received		29,581
Interest received	3,540	3,586
Other financial assets	(30,010)	70,085
Net cash generated by / (used in) investing activities	(113,795)	29,527

C C.N. TRANSELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX-MONTH PERIOD ENDED JUNE 30th, 2017
(all amounts are expressed in thousand RON, unless otherwise provided)

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows (used in)/generated by financing activity		
Repayments of non-current borrowings	(69,727)	(81,257)
Net movement of current borrowings	48,905	9,654
Dividends paid	(164,837)	(192,530)
Net cash (used in) financing activity	(185,659)	(264,133)
Net increase / (decrease) in cash and cash equivalents	(299,579)	(97,442)
Cash and cash equivalents as at January, 1st (see Note 8)	960,489	1,002,829
Cash and cash equivalents as at the end of the year (see Note 8)	660,911	905,387

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Directorate,

Georgeta – Corina POPESCU President of the Directorate	Florin - Cristian TATARU Member	Andreea Georgiana FLOREA Member	Mircea - Toma MODRAN Member	Dan - Valeriu ARDELEAN Member
Cristina STOIAN Accounting and Financial Strategy Director	Cristiana ZIRNOVAN Budgeting and Managerial Reporting Manager			

C.N. TRANSELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017
(all amounts are expressed in thousand RON, unless otherwise provided)

1. GENERAL INFORMATION

The main activity of C.N. Transelectrica S.A. (the "Company") and its subsidiaries (collectively with the Company, the "Group") consists of: the provision of electricity transmission services and system services, operator of the balancing market, administrator of the bonus support scheme, other related activities, These activities take place according to the provisions of Operating License no, 161/2000 issued by ANRE, updated by ANRE Decision no, 802/18.05.2016, of the General Conditions associated to the license approved by ANRE Order no, 104/2014 and of the final certification of the Company as a transmission and system operator of the National Power System according to the ownership unbundling model; service and repairs on the transmission installations; supply of services in the field of IT technologies, telecommunications and research in the energy field.

C.N. Transelectrica S.A., the parent company, was incorporated in 2000 as a joint-stock company established under the laws of Romania.

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

The Group's consolidated interim financial statements as at June 30, 2017 prepared in accordance with the International Financial Reporting Standard 34 adopted by the European Union are not audited,

The main companies in the Group and the Company's shares are presented below:

Entity	Country of origin	June 30, 2017	December 31, 2016
		% of shares	% of shares
Smart S.A.	Romania	70	70
Teletrans S.A.	Romania	100	100

SMART S.A.

SC SMART SA with its registered headquarters at B-dul Magheru nr, 33 Sector 1 Bucharest has as its main field of activity maintenance works for the transmission-dispatch system, It was established by GD no, 710/19.07.2001 on November 1, 2001, The share capital as at June 30, 2017 is 55,036 thousand, which 38,529 subscribed and fully paid in by the Company, At present, the subsidiary's management carries out its activity at the work point in Bucharest, Calea Floreasca no, 246C Sky Tower Building, Floor 20, Sector 1.

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

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

- CNTEE Transelectrica SA
 - shares 3,852,860
 - participation in profit and loss: 70.005%
- Romanian State through the Ministry of Economy, Trade and Business Environment Relations
 - shares 1,650,770
 - participation in profit and loss: 29.994%

C C.N. TRANSELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX-MONTH PERIOD ENDED JUNE 30th, 2017
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S.C. TELETRANS S.A.

SC TELETRANS SA with its registered headquarters at B-dul Hristo-Botev nr, 16–18, sector 3, Bucharest has as its main field of activity telephony, telegraphy, data transmission, It was established by GAS Resolution no, 3/2002, with a share capital as at June 30, 2017 of 6,874 thousand fully subscribed and paid in, At present, the subsidiary's management carries out its activity at the work point in Bucharest, str, Polona nr, 68-72, Business Center Building, Sector 1.

2. BASES OF DRAFTING

(a) Declaration of Conformity

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, They do not include all the information required for a complete set of financial statements in accordance with International Financial Reporting Standards ("IFRS"), Nevertheless, certain explanatory notes have been added to explain the events and transactions that are significant for understanding the changes occurred in the Company's financial position and performance since the latest annual separate financial statements as at and for the financial year ended December 31, 2016.

These condensed consolidated interim financial statements were approved on October 26, 2017.

(b) Professional Reasoning and Estimations

In preparing these condensed consolidated interim financial statements, the management is required to make judgments, estimates and assumptions affecting the application of accounting policies and the recognized value of assets and liabilities, revenues and expenses, Actual results may differ from these estimates.

The significant judgments used by the management to apply the Company's accounting policies and the main sources of uncertainty as to the estimates were the same as those applied to the consolidated financial statements as at and for the financial year ended December 31, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in these condensed consolidated interim financial statements are the same as those applied in the Company's separate financial statements as at and for the financial year ended December 31, 2016.

4. TANGIBLE AND INTANGIBLE ASSETS

The value tangible assets registered at the end of the previous financial year includes fair value valuation registered for buildings and special installations of the Group. The net total value of tangible assets dropped compared to December 31, 2016 further to the registration of the depreciation corresponding to the first 6 months of 2017, against the background of increasing values of property, plant and equipment in progress.

Thus, the increase registered in H1 2017 was represented mainly by investment works in the substations and high voltage power lines, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 25,520;
- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 8,494;
- Upgrading the Suceava 110 kV and 20 kV substation – 7,523;
- Replacing AT and TRAFO in electrical substations - Stage II – 6,853;

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
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4. TANGIBLE AND INTANGIBLE ASSETS (continued)

- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV voltage - stage I - 400 kV OHL s,c, Portile de Fier - (Anina) – Resita – 6,373;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 4,314;
- Upgrading the 400/110/10 kV Cluj Est substation – 3,753;
- Urgent repair of the damage to the Iernut - Gadalın 400 kV OHL and the Iernut - Baia Mare 3 200kV OHL – 2,425;
- Upgrading the Tihau 220/110 kV substation - primary equipment – 2,048;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV substation – 1,965;
- Integrated security system in electric substations, stage IV - 1,697;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 1,317;
- Replacing the connectors from electrical substations – 1,149;
- Replacing the 110/20 kV TRAFO, 10 MVA in the Fantanele 220/110/20 kV substation – 1,077;
- Upgrading the SCADA system for the Constanta Nord substation– 999;
- 400 kV OHL d,c, Gutinas – Smardan – 922;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 618;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation – 567;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 349.

In the first semester of 2017, the biggest transfers from tangible assets in progress at tangible assets are mainly represented by the creation of assets of the investment objectives, so:

- Integrated security system in electric substations, stage IV on the Rosiori 400/220 kV substation, the Oradea Sud 400/110/20 kV substation, the Paroseni 220 kV substation and the Iernut 400/220/110/6 kV substation – 12,098;
- Replacing AT and TRAFO in electrical substations - Stage II – 11,331;
- Urgent repair of the damage to the Iernut - Gadalın 400 kV OHL and the Iernut - Baia Mare 3 200kV OHL – 7,843;
- Connecting the 147 MW Valea Dacilor wind power plant to the Grid – 2,401;
- Replacing the 110/20 kV TRAFO, 10MVA in the Fantanele 110/20 kV substation – 1,128;
- Deposit power transformers for system reserves and isolated passages in the security stock of CNTEE "Transelectrica" - SA in the Sibiu Sud 400 kV substation – 849;
- Upgrading the control building from the Roman Nord 400/110/20 kV substation – 676;
- Special intervention beams, Universally Anchored Portal type for the 220 - 400 kV tension, including prefabricated foundations – 643;
- Thermal imaging chambers – 222;
- TEMPEST IT equipment for processing and storage of information classified as State Secret – 197;
- Switch 48 ports with management – 137.

The balance of tangible assets in progress on June 30th, 2017 is represented by the projects in progress, the most significant being listed below:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 103,975;
- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 73,535;

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX-MONTH PERIOD ENDED JUNE 30th, 2017
(all amounts are expressed in thousand RON, unless otherwise provided)

4. TANGIBLE AND INTANGIBLE ASSETS (continued)

- PTG connection of the Iveshti 300 MW WPP, Fălcu 1 88 MW WPP and Fălcu 2 18 MW WPP via the new Banca (400)/220/110 kV substation – 46,885;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 39,764;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV voltage - stage I - 400 kV OHL s,c, Portile de Fier - (Anina) – Resita – 18,548;
- Upgrading the Suceava 110 kV and 20 kV substation – 14,449;
- Extending the services providing business continuity and recovery after disasters - 14,419;
- Integrated security system in electric substations, stage IV - 13,783;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation – 10,737;
- 400 kV OHL d,c, Cernavodă-Stâlpu and connection in Gura Ialomitei – 8,363;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV voltage - stage I - Resita 400/220/110 kV substation – 6,566;
- Upgrading the Tihau 220/110 kV substation - primary equipment – 6,129;
- 400 kV HVDC Link (submarine cable Romania - Turkey) – 5,854;
- 400 kV OHL Gadalin - Suceava, including the NPS interconnection - 5,659;
- Technical upgrade of the Hasdat 220/110 kV substation – 4,397;
- Reparation of the failure of the 110-120 terminals of the Bucharest Sud - Ghizdaru 220 kV OHL - 4,275;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV substation – 4,147;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 3,651;
- Extending the control system with new functions and IT registration of access in the objectives of CNTEE Transelectrica SA - 3,201;
- 400 kV OHL d,c, Gutinas – Smardan – 3,201;
- Converting of the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV voltage, stage II - Resita - Timisoara – Sacalaz 400 kV OHL d,c, (Timisoara 220/110kV substation) - 3,198;
- Connecting the 136 MW wind power plant Platonesti, Ialomita county, to the Grid through constructing a 110kV cell in the Gura Ialomitei 400/110 kV substation – 2,889;
- Integrated security system in electric substations, stage III - 2,798;
- Upgrading the Arefu 220/110/20 kV substation - 2,747;
- Assembling the optic fiber and upgrading the system of distance protections on 400 kV OHL d,c, Tantareni-Turceni and 400 kV OHL s,c, Urechesi-Rovinari – 2,694;
- Upgrading the Raureni 220/110/20 kV substation - 2,677;
- By-passing the Cetate 110 kV OHL 1 & 2 in the proximity of the Ostrovul Mare 110/20/6 kV substation - 2,578;
- PTG connection of Dumesti 99 MW WPP and Romanesti 30 MW WPP, Iasi county, through constructing a 110 kV line cell in the FAI 220/110 kV substation – 2,546;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 2,178;
- Security solution for implementing the security measures related to classified information – 2,024;
- Executive - DCBPA / CPA: Consolidation, upgrading and extension of the CNTEE “Transelectrica” headquarters – 1,627;
- Replacing AT and TRAFO in electrical substations - Stage II – 1,436;
- Replacing the connectors from electrical substations – 1,151;
- Integrated security system at the new Banca (400) 220/110 kV substation – 1,133;
- Upgrading the SCADA system for the Constanta Nord 400/110 kV substation– 1,117;

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4. TANGIBLE AND INTANGIBLE ASSETS (continued)

- Deploying an optical fiber line between the 110 kV Pitesti Sud substation and the remote control and installation supervision center – 1,074;
- Connecting the Stupina 400 kV substation to the Grid and connecting the Isaccea-Varna 400 kV OHL – 874;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 758;
- Upgrading the 110/6 kV substation from the Pestis 220/110/6 kV substation – 748;
- Ostrovu Mare 220 kV OHL double circuit - PTG – 728;
- Oradea – Beckescsaba 400 kV OHL – 695;
- Connecting the Sarichioi, Tulcea county 33 MW wind power plant to the Grid, in the Zebil 110 kV cell from the Tulcea Vest 400/110 kV substation – 633;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 618.

On December 31st, 2016, tangible assets also include the down payments granted to the supplier ELCOMEX - IEA SA amounting 31,181 for performing the projects:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV station – down payment amounting to 9,949;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV station – down payment amounting to 21,232.

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

On April 7th, 2017 the Court of Constanta, Section II Civil, upheld the application for a declaration of insolvency of the debtor ELCOMEX – IEA SA.

On June 30th, 2017, the down payments granted to the supplier ELCOMEX - IEA SA by Transelectrica (amount: 31,189) were reclassified from tangible assets to receivables.

For the intangible assets in progress, the largest entry in the first semester of 2017 was represented by:

- Replacement of EMS SCADA AREVA system components - software component, hardware component – 1,222;
- NEPLAN software licenses + CIM/XML 7 NEPLAN Software module licenses (2 new licenses, 5 CIM/XML modules) and upgrade for 13 NEPLAN licenses + 5 CIM/XML module licenses – 23,
- Upgrade of the existing antimalware solution – 23;
- Software for the integrated security management system – 137.

5. LONG TERM RECEIVABLES

On June 30th, 2017 the Group registered long-term receivables amounting to 6,534 (9,775 at December 31st, 2016), representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high efficiency cogeneration.

In September 2016, CNTEE Transelectrica SA has concluded the Contract no, C 177 / September 26th, 2016, with SC Termoficare Oradea SA to take over the liability, acting as “new debtor”, and with SC Electrocentrale Oradea SA, acting as “initial debtor”.

SC Termoficare Oradea SA undertakes to pay the amount of 29,259, representing the overcompensation for the activity of SC Electrocentrale Oradea SA in the timeframe 2014 - 2015, broken down into 24 monthly instalments, until September 30th, 2018.

Moreover, the overcompensation of the activity regarding the support scheme for the year 2016 for Electrocentrale Oradea is subject to an Addendum to the Contract for taking over the liability by Termoficare Oradea and it shall be cashed in instalments starting with the month of October 2018 (after the complete payment of the amount of 29,259), and the amount of 4,558 has been reclassified under Long Term Receivables, with due date larger than 1 year.

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5. LONG TERM RECEIVABLES (continued)

Thus, the sum of 6,534 with due date larger than 1 year has been reclassified under Long-Term. Receivables and is represented by:

- overcompensation for the year 2016 in the amount of 4,558;
- overcompensation for the year 2015 in the amount of 1,976.

6. TRADE AND OTHER RECEIVABLES

On June 30th, 2017 and December 31st, 2016, the trade receivables and other receivables are presented as follows:

Trade receivables

	<u>June 30th, 2017</u>	<u>December 31st, 2016</u>
	<i>(unaudited)</i>	<i>(audited)</i>
Trade Receivables	833,860	878,374
Other receivables	134,370	134,009
Advances to suppliers	17,875	19,171
Non-reimbursable funds receivable	-	-
VAT receivable	84,960	28,433
Adjustments for Depreciating the Uncertain Trade Receivables	(131,161)	(103,381)
Adjustments for Depreciating Other Uncertain Receivables	(91,407)	(92,274)
Total Trade Receivables and Other Receivables	<u>848,497</u>	<u>864,332</u>

As at June 30, 2017 and December 31, 2016 the balance of trade receivables is as follows:

	<u>June 30th, 2017</u>	<u>December 31st, 2016</u>
	<i>(unaudited)</i>	<i>(audited)</i>
Clients – energy market	821,158	863,707
- clients – operating activity	384,240	428,634
- clients – balancing market	190,127	255,980
- clients – bonus support scheme for promotion of high-efficiency cogeneration	246,791	179,093
Other clients	12,703	14,667
Total Trade Receivables	<u>833,861</u>	<u>878,374</u>

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

On June 30th, 2017, the current customers in the operational activity registered a decrease compared to December 31st, 2016, which was mainly determined by:

- rise in the level of collection of receivables;
- decrease in the electricity quantity delivered to consumers in the months of May and June 2017 compared to the months of November and December 2016.

The main current customers on the electricity market are represented by: RAAN, Ciga Energy,

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6. TRADE AND OTHER RECEIVABLES (continued)

Electrocentrale Bucuresti, Electrica Furnizare, Enel Energie Muntenia, E.on Energie Romania, Enel Energie, CET Govora, Opcom, The weight of the main customers on the electricity market is about 56% in the Total Gross Receivables.

The current receivables for the balancing market, amounting to 190,127, registered a value decrease compared to December 31st, 2016, following a decrease in the transactions on this market.

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

On June 30th, 2017, the Group registered receivables to be cashed from the bonus type support scheme for promoting the high efficiency cogeneration in a proportion of approximately 30% (December 31st, 2016 - 21%) of the total trade receivables.

The customers from the bonus type support scheme for promoting the high efficiency cogeneration registered an increase in the receivables on June 30th, 2017, mainly determined by the receivables amounting to 139,914, registered according to the ANRE Decisions issued in the month of March 2017, on the overcompensation of the activity regarding the support scheme for the year 2016.

In the timeframe January 1st – June 30th, 2017, the amounts related to the bonus type support scheme have increased compared to December 31st, 2016, mainly due to the over-compensation decisions for 2016, issued in 2017. The overview of the receivables for the cogeneration scheme is as follows:

- the amount of 1,394 representing the overcompensation for the year of 2014, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 6,405 representing the overcompensation for the year of 2015, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 69,395 representing overcompensation for the year of 2016, on the grounds of reciprocal compensations made via the Management and Informatics Institute (on the grounds of DG no, 685 / 1999) (the amount of 20,585 with Enet SA, Modern Calor, Rulmenti Barlad, Soceram, Thermoenergy Group, Veolia Energie Iasi, Veolia Energie Prahova) and receipts in the bank account dedicated to the administration of the support scheme (the amount of 48,810 from CET Grivita, Electrocentrale Bucuresti, Termoficare Oradea, Thermoenergy Group, Veolia Energie Prahova);
- the amount of 71 representing undue bonus for the year of 2016, on the grounds of compensations made via the Management and Informatics Institute (on the grounds of DG no, 685 / 1999) – CET Arad.

On June 30th, 2017, the Group registered receivables amounting to 195,903, represented by the issued invoices under the bonus type support scheme for high efficiency cogeneration, out of which:

- overcompensation for the timeframe 2011 - 2013 in the amount of 76,70, namely from RAAN - 63,467 and CET Govora SA - 13,235;
- undue bonus for 2014 in the amount of 3,915, namely from RAAN – 1,981, CET Govora – 1,934;
- undue bonus for 2015 in the amount of 564, namely from CET Govora - 534 Interagro - 30;
- overcompensation for 2015 in the amount of 14,628, namely from Electrocentrale Oradea (debt taken over by Termoficare Oradea);
- overcompensation for 2016 in the amount of 65,961, namely from Electrocentrale Bucuresti – 56,680, CET Govora – 9,281;
- contribution for cogeneration not collected from the suppliers of electricity consumers, in the amount of 34,133, namely from: Transenergo Com – 5,882, Enel Energie SA – 5,235, Enel Energie Muntenia – 5,196 PetProd – 4,391, Romenergy Industry – 2,681, RAAN- 2,386, Arelco Power – 2,379, UGM Energy – 1,814, CET Govora – 901, KDF Energy – 868 and others.

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6. TRADE AND OTHER RECEIVABLES (continued)

At the date of this interim financial statement, the Group has registered the following situation regarding the receivables for overcompensating the activity regarding the support scheme for the year of 2016:

- collections in the amount of 69,395, out of which collections via bank transactions in the amount of 48,810 (out of which: Electrocentrale Bucuresti – 33,518, Veolia Energie Prahova – 13,157, Termoficare Oradea – 1,245, CET Grivita – 864, Thermoenergy Group – 21) and collections on the grounds of compensations made via the Management and Informatics Institute (on the grounds of DG no, 685/1999) in the amount of 20,585 (out of which: Veolia Energie Prahova – 11,379, Veolia Energie Iasi – 4,920 Thermoenergy Group – 1,712, Rulmenti Barlad – 1,542, Modern Calor – 488, Soceram – 454, Enet – 91);
- due receivables amounting to 70,519 (out of which: Electrocentrale Bucuresti – 56,680, CET Govora – 9,281, Electrocentrale Oradea – 4,558).

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

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

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art, 17 (5) from the Order of the ANRE Chairman no, 116 / 2013 and the provisions of the Agreement, in the amount of 40,508.

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

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

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

Via Civil Decision no, 2430/October 5th, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil Ruling no, 3185/November 27th, 2015, has partially cancelled the sentence and has rejected the suspension request lodged by CET Govora, the judgement being final, Thus, starting with 05.10.2016, the effects of the ANRE Decision no. 738/March 28th, 2014 are no longer suspended, being in full effect.

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

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6. TRADE AND OTHER RECEIVABLES (continued)

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

Thus, on June 30th, 2017 the Company does not register provisions for the support scheme, the unrecovered value of these receivables being included in the cogeneration contribution.

Other Receivables

On June 30th, 2017, other receivables in the amount of 160,272 mainly included:

- down payments granted to the supplier ELCOMEX - IEA SA amounting to 31,181 have been granted to the supplier ELCOMEX - IEA SA for performing the projects:

- o Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,949;
- o Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232.

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

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

On the day of insolvency, CNTEE Transelectrica SA held the following agreements concluded with SC Elcomex IEA SA: C163/29.07.2015: "Converting the Portile de Fier – Resita - Timisoara – Sacalaz – Arad to 400 kV / the 400/220/110 kV Resita substation" and C255/18.11.2015 "Connecting the OHL 400 kV Isaccea-Varna and OHL 400 kV Isaccea-Dobruja in the 400 kV Medgidia Sud substation, stage I", Following the declaration of insolvency of SC Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no.C163/29.07.2015 and C255/18.11.2015 and other expenses.

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

Considering that to this date, the amount to be recovered from Elcomex IEA SA is impossible to estimate, there have been no adjustments of depreciation registered for the amounts owed by Elcomex IEA SA:

- late payment penalties calculated to late paying clients, amounting to 57,874 (out of which the amount of 26,014 represents penalties in relation to the support scheme), The highest late payment penalties were registered by the following clients: RAAN (16,901), SC CET Govora (9,607), SC Eco Energy SRL (8,910), SC Petprod SRL (8,895), Total Electric Oltenia (3,289), Arcelor Mittal Galati (2,952), Also Energ (2,121). For the penalty charges for late payment of the receivables from operational activities, depreciation adjustments were recorded:

- receivables to be recovered from ANAF amounting to 44,443 (see paragraph below);
- receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to 4,517;
- deferred expenses amounting to 11,147 represented mainly by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future timeframes (5,747), a guarantee fee for the BEI 25710 loan (91) and commission of ING credit granting (518), levies paid for 2017 to national and international institutions (1,660), rents (592), ANRE yearly contribution (1,072);
- other long-term receivables amounting to 4,387, out of which 4,068 represent guarantees for temporary occupation of the land calculated and retained in accordance with Article 39 (1), (2) and (5) of the Law no, 46/2008 on the Forestry Code, in order to achieve the investment objective Resita – Pancevo (Serbia) 400 kV OHL.

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6. TRADE AND OTHER RECEIVABLES (continued)

VAT to be recovered

On June 30th, 2017 the Company register VAT to be recovered amounting 84,032 out of which 77,714 were collected from the the state budget on July 5th, 2017.

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

Transelectrica is in litigation with ANAF which issued a tax audit report on September 20th, 2011, regarding the refund of VAT for the timeframe September 2005 - November 2006 for a total of 123 unused invoices identified as missing (they were destroyed in the fire that broke out the night of June 26th - 27th, 2009, at the business office from Millennium Business Center from 2 - 4 Armand Calinescu Street, District 2, where the company carried out its activity), documents under special regime, and for which it estimated a sum of collected VAT amounting to 16,303, plus accessories amounting to 27,196, The total value of these obligations amounts to 43,499, The consideration of these obligations has been retained from the VAT paid by the Company in the month of November 2011. Subsequently, the Company has found that the amounts paid as current VAT were considered for payment of the tax audit report mentioned above, Thus, the company was forced to pay 944 increases related to VAT that should have been paid in the month of November 2011 for registering no outstanding debts towards the state budget, In 2011, the Company paid the total amount of 44,443.

Transelectrica used all legal means to contest the tax decision of ANAF, reason for which an appeal was filed with ANAF against the tax decision, and the Company requested the suspension of the tax decision until the administrative settlement of the appeal filed with ANAF. The court rejected the request for suspension of the execution of the tax audit report.

The Company believes that the tax base has not been reasonably determined by ANAF depending on the integrally regulated character of the Company's activity on the electricity market, which is set according to the number and value of invoices issued by the Company in the period subject to verification, The company considered itself entitled to bring an action to court because it believes that ANAF has not taken into account all the data and documents relevant for the estimation, as provided in the Fiscal Procedure Code applicable at that time, In this regard, the Company took legal actions against ANAF before the Court of Appeals of Bucharest in August 2012, in order to recover the amount and has requested the admission of documentary evidence and evidence of legal audit expertise.

On September 18th, 2013, the audit report was prepared, which was submitted to the file at the hearing from September 20th, 2013, At the hearing from October 18th, 2013, the parties have objected the legal expert report, objections which were approved by the Court of Appeal at the hearing from November 15th, 2013 and which were communicated to the designated expert. At the hearing from March 7th, 2014, the expert responded to the objections raised by the Company, Compared to the revenues considered by ANAF, according to which the collected VAT was estimated by ANAF in the amount of 16,303, the legal audit expertise report found the existence of unjustified income in the amount of 551, the sum at which the VAT and the accessories thereof would have been calculated, The session was postponed in order to be informed regarding the content of the response to the objections of the expert report.

At the hearing from April 30th, 2014, the solution delivered by the court of first instance - Bucharest Court of Appeal, Section VIII Administrative and Fiscal Litigation (Decision no. 1356 / 2014) in case no. 6657 / 2 / 2012 was the following: "The application of the defendant CNTEE Transelectrica SA is rejected (Complaint against the fiscal administrative Document issued by ANAF)".

The company appealed by formulating request for reinstatement filed within this file, with hearings set on April 7th, 2016, the meeting being held at the High Court of Cassation and Justice, Administrative and Fiscal Litigation Section, On April 7th, 2016, due to the lack of procedure, it has established a new hearing for the date of June 2nd, 2016, hearing in which the court reserved judgement, postponing the judgement to date of June 16th, 2016.

In this hearing, the High Court of Cassation and Justice - Administrative and Fiscal Litigation Section ruled decision no. 1945 / June 16th, 2016, by which the following have been ordered: 'Accepts the request and reinstates the appellant - claimant in the appeal, Rejects the appeal filed by the National Power Grid Company "Transelectrica" against decision no. 1365 of April 30th, 2014 of the Court of Appeal Bucharest - Section VIII Administrative and Fiscal Litigation, as ill-founded, Irrevocable. Delivered in open court today, June 16th, 2016", Decision no. 1945 / June 16th, 2016 pronounced by the High Court of Cassation and Justice, has been notified to the Company via photocopy.

An appeal for annulment was filed against decision no.1945 / June 16th, 2016 and it was submitted to the High Court of Cassation and Justice, On March 1st, 2017, through decision no. 779, the High Court of

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6. TRADE AND OTHER RECEIVABLES (continued)

Cassation and Justice ordered the following: 'rejects the exception of inadmissibility of the appeal for annulment filed by the contesting party Transelectrica SA, advanced via counterstatement by appellee General Directorate for Large Taxpayers Management, Rejects the appeal for annulment filed by the contesting party Transelectrica SA against Civil Decision no. 1945 from June 16th, 2016 of the High Court of Cassation and Justice - Administrative and Fiscal Litigation Section, ruled in file no, 6657 / 2 / 2012, as ill-founded, Irrevocable" .

Down payments to suppliers

On June 30th, 2017, the down payments to suppliers are represented by the suppliers who are debtors for services amounted to 17,875, this represent amounts from transactions related to the price coupling mechanism. Application of the mechanism coupling through the price began on 19th November 2014, the date at which the project "4 Market Market Coupling" which provides the unification of the electricity markets DAM Square (Next Day Market) from Romania, Hungary, Czech Republic and Slovakia entered in the operating phase. Within the price coupling mechanism for the day-ahead markets, the electricity exchanges correlate the day-ahead electricity transactions based on bids, taking into account the interconnection capacity provided by the TSOs, by which it is implicitly allocated CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs (MAVIR-Hungary) and manages the congestion revenues along the respective interconnection (Article 139 from ANRE Order no. 82/2014), while in relation to SC OPCOM SA it acts as Implicit Participant on the Day-Ahead Market.

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

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

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

On June 30th, 2017, the highest adjustments of depreciation, calculated for the trade receivables and related penalties, have been recorded for SC Petprod SRL (29,242), SC Eco Energy SRL (24,736), Arelco Power (18,565), SC Total Electric Oltenia SA (14,186), Romenergy Industry (13,513), Elsaco Energy (9,365), RAAN (8,584), Also Energ (7,177), Cet Brasov (4,719), Opcom (4,517), The Company took the following measures in order to recover the impaired receivables: court proceedings, entering on the statement of affairs, requesting clarifications from ANAF (regarding the VAT collected from Opcom) and so on.

On the same date, the Company registered a provision amounting to 44,443, related to the total obligations paid to ANAF.

The Company's exposure to the collection risk, as well as the value adjustments for trade receivables, are presented in Note 23.

7. OTHER FINANCIAL ASSETS

On June 30th, 2017 and December 31st, 2016, the other financial assets were presented as follows:

	June 30th, 2017	December 31st, 2016
	(unaudited)	(audited)
Bank deposits with maturity larger than 90 days	165,100	135,090
Total	165,100	135,090

On June 30th, 2017, the Company has bank deposits with maturity larger than 90 days from cash in current accounts, amounting to 165,100 (135,090 at December 31st, 2016).

The accompanying notes form an integral part of these condensed consolidated interim financial statements
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8. CASH AND CASH EQUIVALENTS

On June 30th, 2017 and December 31st, 2016, the cash and cash equivalents were presented as follows:

	June 30th, 2017	December 31st, 2016
	(unaudited)	(audited)
Current bank accounts and deposits	660,711	960,400
- cash from income related to the allocation of interconnection capacities used for network investments	101,924	77,026
- cash from connection tax	26,957	22,533
- cash and deposits from high-efficiency cogeneration scheme	-	107,812
Petty cash	109	89
Treasury bills	-	-
Other cash equivalents	91	-
Total	660,991	960,489

The bank deposits with maturity smaller than 90 days, constituted with cash available in current accounts (including cogeneration deposits) amounted to 228,196 at June 30th, 2017 and to 688,115 at December 31st, 2016.

9. SHAREHOLDERS' EQUITY

According to the provisions of Government Emergency Ordinance no. 86 / 2014 on the establishment of reorganization measures at the central public administration level and for amending and supplementing several normative acts, on February 20th, 2015, the transfer of 43,020,309 shares was registered in the Company's Shareholder Register, from the account of the Romanian State from the administration of the General Secretariat of Government, in the account of the Romanian State in the management of the Ministry of Economy, Trade and Tourism.

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

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

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

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

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9. SHAREHOLDERS' EQUITY (continued)

The shareholding structure on June 30th, 2017 and December 31st, 2016 is as follows:

Shareholder	June 30 th , 2017 (unaudited)		December 31 st , 2016 (audited)	
	Number of shares	% of the Share capital	Number of shares	% of the Share capital
Romanian State through MECRMA	-	-	43,020,309	58,69%
Romanian State through ME	43,020,309	58,69%	-	-
Other legal person shareholders	25,482,397	34,76%	25,797,725	35,19%
Other natural person shareholders	4,800,436	6,55%	4,485,108	6,12%
Total	73,303,142	100,00%	73,303,142	100,00%

The increase in equity on June 30th, 2017 compared to December 31st, 2016 was driven primarily by the profit allocation for 2016, on basis of registering the net profit in the reported result, amounting to 98,383, conducted on June 30th, 2017. The value of shareholders' dividends distributed from the profit of 2016 according to the General Assembly Decision no.4 / April 27th, 2017 amounts to 165,445, and their payment is done through the Central Depository starting with June 7th, 2017.

10. DEFERRED INCOME

Deferred revenues are mainly represented by: the connection fee, other subsidies for investments, non-refundable European funds collected from the Ministry of European Funds, as well as revenues from the use of interconnection capacities, On June 30th, 2017, the report of the deferred revenues is as follows:

	June 30 th , 2017	Of which: the short-term portion on June 30 th , 2017	December 31 st , 2016	Of which: the short-term portion on December 31 st , 2016
Deferred Revenues - interconnection capacity allocation	6,281	6,281	6,579	6,579
Deferred Revenues - European Funds	1,213	1,213	1,320	1,320
Funds from the connection fee	312,986	21,978	319,026	21,082
European Funds	105,522	7,449	109,441	7,473
Other subsidies	34,165	1,568	35,351	1,571
Total	460,167	38,489	471,717	38,025

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10. DEFERRED INCOME (continued)

Evolution of the short-term deferred revenues in the timeframe January - June 2017 is presented as follows:

	June 30 th , 2017 <i>(unaudited)</i>	December 31 st , 2016 <i>(audited)</i>
Balance at the beginning of the period	38,125	33,408
Advance income related to the interconnection capacity	38,212	38,685
Connection fee transferred from long-term deferred income (connection tariff)	768	(413)
Collections from European funds	(18)	1,213
Income from using the interconnection capacity	(38,509)	(34,868)
Income from European funds	(89)	-
Total	38,489	38,025

In the first semester of 2017, the Company collected from the Ministry of Economy the amount of 50 for starting the expropriation proceedings (GO 22 / 2002 - compensations according to GD 918 / 2016) for "Connecting the 400kV Isaccea - Varna OHL and the 400 kV Isaccea - Dobruja OHL in the 400 kV Medgidia Sud substation, Stage II - 400 kV OHL d,c, Connections in the Medgidia Sud substation" and for "Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad axis / 400 kV Porile de Fier – (Anina) – Resita OHL to 400 kV".

11. LOANS

Long-term loans

On June 30th, 2017, the value of long-term loans has diminished compared to December 31st, 2016 mainly due to repayments made under the existing loan agreements.

During timeframe January - June 2017, no withdrawals from loans were conducted.

Movements in loans during the six-month period ended on June 30th, 2017 are presented as follows:

	Currency Interest Rate	Book Value	Due Date
Balance on January 1st, 2017		636,554	
New Withdrawals		-	
Refunds, from which:		(69,727)	
NIB PIL No 02/18	USD LIBOR+0,9%	(3,742)	April 15 th , 2018
BIRD 7181	EUR 0,06% ultima comunicare	(15,928)	January 15 th , 2020
NIB PIL No 03/5	EUR EURIBOR+0,85%	(5,193)	September 15 th , 2018
NIB PIL No 02/37	EUR EURIBOR+0,9%	(2,780)	September 15 th , 2018
KfW 10431	EUR EURIBOR+0,6%	(4,992)	July 31 st , 2017
KfW 11300	EUR EURIBOR+0,6%	(7,245)	July 31 st , 2017
BEI 25709	EUR 3,596%	(5,436)	September, 10 th , 2025
BEI 25710	EUR 3,856%+2,847%	(5,494)	April 11 th , 2026
ING + BRD	EUR EURIBOR+2,75%	(18,916)	February 13 th , 2019
Unsecured Bonds	RON 6,1%	-	December 19 th , 2018
Differences of Exchange on the date of reimbursement		208	
Balance on June 30th, 2017		567,036	

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11. LOANS (continued)

On June 30th, 2017 and December 31st, 2016, the balance of long-term loans contracted from credit institutions is presented as follows:

Description	June 30 th , 2017 (unaudited)	December 31 st , 2016 (audited)
NIB PIL No 02/18	7,010	11,337
BIRD 7181	58,586	74,349
NIB PIL No 03/5	15,711	20,889
NIB PIL No 02/37	8,410	11,182
KfW 10431	4,542	9,522
KfW 11300	2,373	9,611
BEI 25709	93,186	98,390
BEI 25710	100,711	105,910
ING + BRD	76,506	95,363
Unsecured Bonds	200,000	200,000
Total long-term loans from credit institutions, out of which:	567,036	636,554
Current portion of long-term loans	(122,163)	(134,624)
Total long-term loans net of current rates	444,873	501,930

The long-term portion of loans will be repaid as follows:

	June 30 th , 2017	December 31 st , 2016
Between 1 and 2 years	292,209	311,712
Between 2 and 5 years	68,560	95,402
Over 5 years	84,104	94,816
Total	444,873	501,930

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

All long-term loans, except 25709 EIB, 25710 EIB and the Bonds, bear the variable interest and therefore the book value of long-term loans approximates their fair value.

Short-term loans

On June 30th, 2017 and December 31st, 2016, the balance of short-term loans is presented as follows:

	June 30 th , 2017 (unaudited)	December 31 st , 2016 (audited)
Current share of long-term borrowings	122.163	134,624
Short-term bank loans (credit lines)	66.248	17,343
Interest on long-term borrowings	2.724	3,140
Interest related to bonds	6.574	441
Total short-term loans	197,709	155,548

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11. LOANS (continued)

The outstanding balance of the short term bank loans is represented by the credit line obtained by S.C. SMART S.A. from ING Bank NV Amsterdam. The credit line bears a variable interest rate.

Loans contracted for the current operations

The Group has contracted a credit line in March 2017 from BRD GROUP SOCIETE GENERALE SA, the Large Corporates Branch, for a period of 12 months for financing the bonus type support scheme for high efficiency cogeneration, in the form of overdraft amounting to 150,000, with an interest calculated according to the ROBOR 1M reference rate, plus a negative margin of 0,10%. In the event that the value of the ROBOR 1M reference rate is smaller than 0.10%, the interest rate applied shall be of 0%.

This was guaranteed by:

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

On June 30th, 2017 withdrawals from the credit line in the amount of 43,108 were made, this also includes the payment of the interest expenses related to this credit line (credit line not used on December 31st, 2016).

The Group has contracted a credit line from ING Bank NV Amsterdam with variable interest. On June 30th, 2017 withdrawals from the credit line in the amount of 24,140 were made, this also includes the payment of the interest expenses related to this credit line.

12. TRADE AND OTHER LIABILITIES

On June 30th, 2017 and December 31st, 2016 trade payables and other liabilities are presented as follows:

	June 30th 2017	December 31st, 2016
	<i>(unaudited)</i>	<i>(audited)</i>
Energy suppliers	448,185	591,679
Suppliers of non-current assets	52,201	77,668
Suppliers of other services	11,502	22,286
Amounts owed to employees	6,652	6,170
Other liabilities	130,886	179,255
Total	649,427	877,058

On June 30th, 2017 and December 31st, 2016, outstanding debts on the energy market amounted to 448,185 and 591,678 respectively, and presented the following structure:

	June 30th 2017	December 31st, 2016
	<i>(unaudited)</i>	<i>(audited)</i>
Suppliers on the electricity market, out of which:		
- suppliers - operational activity	163,519	122.864
- suppliers – balancing market	135,189	286.775
- suppliers - the bonus type support scheme for promoting the high efficiency cogeneration	149,477	182,040
Total	448,185	591,679

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12. TRADE AND OTHER LIABILITIES (continued)

- increase in the balance of debts related to the providers of operational activity was mainly determined by the increase in the prices on the competitive market related to the acquisition of ancillary services.
- the decrease in the balance of debts related to the balancing market was determined by the payment of current obligations on the electricity market on December 31st, 2016 and by the decrease in the trading volume on the balancing market.

The providers on the electricity market are represented mainly by: SC Hidroelectrica SA, Electrocentrale Bucuresti RAAN, Complex Energetic Oltenia, Mavir, Romgaz. On June 30th, 2017, their share in total energy providers is about 80%.

- the decrease in the debts related to the support scheme towards the suppliers (generators) was determined by the payment of liabilities current on December 31st, 2016, with payment deadline in 2017, as follows:

On June 30th, 2017, payment obligations were registered towards suppliers (producers) in the amount of 120,514 (Electrocentrale Bucuresti – 56,680, RAAN – 51,1834 CET Govora SA – 12,650, representing the cogeneration bonus and ante-overcompensation for the years 2014 and 2015, as well as the bonus not granted for the year 2015 and the bonus not granted for the year 2016. The amounts representing the debts of the Company regarding the support scheme towards Electrocentrale Bucuresti, RAAN, CET Govora have been retained from payment on the grounds of Article 17 (5) of the Order of the ANRE Chairman no. 116 / 2013, because the suppliers (producers) registered payment obligations towards the Company regarding the bonus type support scheme.

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

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

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

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art. 17 (5) from the Order of the ANRE Chairman no. 116 / 2013 and the provisions of the Agreement, in the amount of 40,508.

Following the suspension in court, by Civil sentence no. 3185 / November 27th, 2015, the ANRE Decision no. 738/ March 28th, 2014 on setting the overcompensation amount for the timeframe 2011 - 2013, CET Gavora SA no longer respected the obligations undertaken according to the Agreement. Starting with May 9th, 2016, the general insolvency proceedings were opened for CET Govora. Given the provisions of Law no. 85/2014 on insolvency, starting with May 9th, 2016, the Company has terminated the enforcement of Article 17 (5) from the Order of ANRE Chairman no.116 / 2013 on approving the

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12. TRADE AND OTHER LIABILITIES (continued)

Regulation regarding the settlement of the collection procedure of the high efficiency cogeneration contribution and the payment of the bonus for the electricity produced via high efficiency cogeneration, and has paid the due cogeneration bonus to CET Govora on a monthly basis.

Via Civil Decision no. 2430 / October 5th, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil sentence no. 3185 / November 27th, 2015, has partially cancelled the sentence and has rejected the suspension request lodged by CET Govora. Thus, starting with October 5th, 2016, the effects of the ANRE Decision no. 738 / March 28th, 2014 are no longer suspended, being in full effect.

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

- the decrease of the balance of asset suppliers on June 30th, 2017 compared to December 31st, 2016 is due to the payment of the debts towards the asset suppliers;
- the debts towards suppliers of other activities are mainly represented by the not due debts related to the services provided by third parties, debts which have registered a decrease compared to December 31st, 2016,

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

	June 30th, 2017	December 31st, 2016
	(unaudited)	(audited)
Different Creditors	79,681	134,136
Clients - creditors	37,858	33,620
Dividends to be paid	1,921	1,313
Other Liabilities	11,426	10,186
Total	130,886	179,255

On June 30th, 2017, the position "different creditors" in the amount of 79,637 represented mainly the net position of the support scheme for high efficiency cogeneration, which on June 30th, 2017 registers a debt position amounting to 73,988 (December 31st, 2016: 128,273).

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

- the amount of contributions to be collected from the electricity suppliers, the amount of the overcompensation of the activity of electricity and heat production in high efficiency cogeneration for 2011 - 2013, for the year of 2015 and for the year of 2016, the undue bonus for the year 2014 and the undue bonus for the year 2015 – to be collected from the producers, according to the ANRE decisions, on the one hand, and
- the cogeneration bonus amount withheld under Article 17 (5) of the Order of ANRE Chairman no. 116 / 2013, the ante-overcompensation for the years 2014 and 2015 and the bonus not granted for the years 2015 and 2016 - to be paid to the high efficiency cogeneration energy producers, the beneficiaries of the support scheme, on the other hand.

"Customers creditors" on June 30th, 2017 amounted to 21,054, out of which 20,877 represent amounts collected in advance from MAVIR and OPCOM within the transactions related to the price coupling mechanism.

On June 30th, 2017, the dividends owed and unpaid to the Company's shareholders amount to 1,921, out of which the amount of 1,081 is related to dividends distributed from the profit of the year 2016. These amounts are available to the shareholders through the payment agent.

Other debts amounting to 8,409 are mainly represented by payment guarantees - energy market contracts and guarantees for the proper execution of service contracts concluded by the Group

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13. INCOME TAX

The Group's current and deferred income tax is calculated at a statutory rate of 16%.
Income tax expenses are as follows:

	Six-month period ended June 30, 2017 <i>(unaudited)</i>	Six-month period ended June 30, 2016 <i>(unaudited)</i>
Current income tax	25,557	35,896
Deferred income tax	(4,140)	(2,109)
Total	21,417	33,787

14. EARNINGS PER SHARE

For the six-month periods ended June 30, 2017 and June 30, 2016 the earnings per share are:

	Six-month period ended June 30, 2017 <i>(unaudited)</i>	Six-month period ended June 30, 2016 <i>(unaudited)</i>
Net consolidated profit	87,612	131,814
Number of ordinary shares at the beginning and end of the year	73,303,142	73,303,142
Basic diluted earnings per share (RON/share)	1,20	1,80

15. OTHER SOCIAL SECURITY TAXES AND LIABILITIES

On June 30th, 2017 and December 31st, 2016, other taxes and social insurance obligations included:

	June 30 th , 2017 <i>(unaudited)</i>	December 31 st , 2016 <i>(audited)</i>
VAT payable	764	2,126
Contribution to social insurance funds	5,250	6,325
Payroll tax	2,116	2,487
Other taxes payable	3,909	1,353
Total	12,039	12,291

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15. OTHER SOCIAL SECURITY TAXES AND LIABILITIES (continued)

On June 30th, 2017, the Group registered payment obligations for contributions to social insurance funds, payroll tax and other taxes that were paid in the month of July, 2017.

Furthermore, on June 30th, 2017, the Company also registered taxes on dividends amounting to 2,244, taxes due in July 2017.

16. INCOME

Operating revenues include revenues from the transmission and system services provided by the Group on the electricity market, as well as the allocation of interconnection capacity, balancing market operating services and other revenues.

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

	Average Price for the transmission service	Average Price for the ancillary services	Average Price for the functional system services
Order no, 27/2016 – for the second quarter of 2017	18.70	11.58	1.30
Order no, 93/2015 – for the second quarter of 2016	20.97	12.58	1.17

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

The zonal tariffs regarding the transmission service for the injection of electricity into the transmission grid (T_G) and for drawing electricity off the transmission grid (T_L) have been approved by ANRE Order no, 27 / 2016, starting with July 1st, 2016.

During the second quarter ended June 30, 2017 and June 30, 2016, the amount of electricity transmitted is as follows:

	Second quarter of 2017	Second quarter of 2016
The amount of electricity delivered to consumers (MWh)	12,801,012	12,451,126

For second half of 2017 and second half of 2016 the average tariffs for the electricity transmission applied in the second quarter of 2017, respectively in the second quarter of 2016, have been maintained.

During the six-month periods ended June 30, 2017 and June 30, 2016, the amount of electricity transmitted is as follows:

	First semester 2017	First semester 2016
The amount of electricity delivered to consumers (MWh)	27,402,464	26,472,802

Income obtained during the six-month period ended June 30, 2017 as compared to the six-month period ended June 30, 2016 is as follows:

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16. INCOME (continued)

	First semester 2017 (unaudited)	First semester 2016 (unaudited)
Transmission revenues	511,377	551,503
Revenues from allocating the interconnection capacity	38,233	39,552
Revenues from reactive energy	3,187	3,858
Revenues from Inter TSO Compensation (ITC)	605	33
Revenues from Own Technological Consumption (CPT)	605	155
Transmission Revenues - total	554,006	595,103
Functional system service revenues	35,608	30,974
Technological system services revenues	318,908	334,581
Revenues from unplanned shifts on DAM	862	969
System Service Revenues - total	355,378	366,524
Revenues on the balancing market	805,048	366,613
Other Revenues	27,063	28,537
Total Revenues	1,741,495	1,356,777

Transmission Revenues

Given the rise in the amount of electricity delivered to consumers in first half of 2017 compared to first half of 2016, namely of 3.51%, or 929,662 MWh, the income from the transmission service has registered a decrease in the amount of 40,126, determined by the decrease of the average tariffs approved by ANRE (according to the table on the average tariffs approved by ANRE for the analyzed timeframes, presented above).

Functional System Service Revenues

In first half of 2017, the income from functional system services have registered an increase compared to first half of 2016, in the amount of 4,634 determined by the increase in the amount of electricity delivered to consumers, as well as by the slight increase of the average tariff approved by ANRE starting with July 1st, 2016, from 1.17 RON/MWh in first half of 2016, to 1.30 RON/MWh in first half of 2017.

Revenues from allocating the interconnection capacity

In first half of 2017, the income from the interconnection capacity allocation has registered an decrease compared to first half of 2016, in the amount of 1,319, corresponding to the level of usage of the available interconnection capacity by traders on the electricity market.

The mechanism for the allocation of interconnection capacity consists in organizing annual, monthly, daily and intra-daily auctions. The annual, monthly and intra-daily are explicit - only the transmission capacity is bid on, and the daily ones with Hungary are implicit - are allocated simultaneously with the energy and capacity via the coupling mechanism.

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

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

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16. INCOME (continued)

meaning that MAVIR compensates the participants for the unused capacities.

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

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

Revenues from technological system services

The income from the technological system services have registered a decrease in S1 of 2017 compared to S1 of 2016 in the amount of 15,673, mainly determined by the decrease with 7.9% of the average tariff approved by ANRE for these services, namely from 12.58 RON/MWh to 11.58 RON/MWh, starting with July 1st, 2016 (according to the table on the average tariffs approved by ANRE for the analyzed timeframes, presented above), given that the amount of electricity delivered registered an increase of 3.51%.

Revenues on the balancing market

The income from the balancing market have registered an increase in S1 of 2017 compared to S1 of 2016, with the amount of 438,434, determined by:

- the increase of the negative imbalance registered at the level of electricity suppliers on the balancing market, and the increase of the imbalance between the notified net contractual position and the actually delivered electricity, respectively;
- very low temperatures registered during the first quarter of 2017, which generated the registration of higher electricity consumption levels within the NPS;
- decrease of the available electricity in the dispatchable groups as a result of:
 - the decrease in the flow of the Danube;
 - the reduction of the average available power of the nuclear units, as a result of the decrease in the flow of the cooling water in the Cernavoda power plant, directly influenced by the flow of the Danube;
 - the insufficient fuel stocks in the coal power plants;
 - the decrease in the pressure of natural gas within the transmission network as a result of the increase in the natural gas consumption of households and industrial consumers, which limits the natural gas flow dispatched to natural gas power plants;
- high degree of unpredictability and volatility of production from renewable sources (especially wind energy).

The balancing market represents a sector with zero profit for the Company.

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

The expenses in the first semester of 2017 compared with the ones in the first semester of 2016 are as follows:

	First semester 2017 (unaudited)	First semester 2016 (unaudited)
Expenses on Own Technological Consumption	100,983	89,501
Expenses on Congestions	41	2,904
Expenses on electricity consumption in RET substations	7,390	7,450
Expenses on the Functional System Services	8,643	7,188
Expenses on Inter TSO Compensation (ITC)	12,025	13,440
Total Operational Expenses	129,083	120,483
Expenses regarding the ancillary services	805,048	332,973
Expenses on the balancing market	319,024	366,613
Total	1,253,155	820,069

Expenses on Own Technological Consumption

Technological consumption expenses (CPT) are represented by electricity procurement costs as necessary to maintain installations under voltage and provide electricity transmission through the interconnected electricity grid.

In the first semester of 2017, these expenses have increased with the amount of 11,482 compared to the ones registered in the similar period of the previous year, given the reduction of the electricity quantity necessary to cover the CPT in PTG with ca, 7% (from 507,744 MWh in the first semester of 2016, to 472,189 MWh in the first semester of 2017).

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

Thus, in the first semester of 2017, the electricity for covering the CPT has been purchased on the free energy market, namely on the Centralized Market for Electricity Bilateral Contracts (CMBC), DAM, BM and IDM at the average purchase price of 209.8 RON/MWh, compared to the average purchase price of 175.2 RON/MWh in the first semester of 2016.

Expenses on Congestions

Congestions (network restrictions) are requests for electricity transmission beyond the technical capacity of the network, requiring corrective actions from the transmission and system operator and occur in the situation in which, in the programming of the operation or the operation in real time, the power flow between two nodes or system areas leads to the non-accomplishment of the safety parameters in the operation of a power system. In the first semester of the current year, the expenses on congestions have been registered in the amount of 41, being lower than the ones registered in the first semester of the previous year, the latter amounting to 2,904.

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

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

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17. EXPENSES FOR OPERATING THE SYSTEM AND FORM THE BALANCING MARKET (continued)

Expenses regarding the functional system services

These expenditures have registered an increase in the first semester of 2017, increase amounting to 1,455, mainly determined by the increase in the expenditures on the day-ahead market regarding the unplanned electricity exchanges (exports) with the neighboring countries connected to the NPS.

Expenditures on Inter TSO Compensation (ITC)

The monthly payment/collection obligations for each transmission system operator (TSO) are set forth within the clearing (settlement) mechanism for the effects of using the PTG for electricity transfers between the OTS from the 35 countries that acceded to this mechanism within the ENTSO-E. In the first semester of the current year, these expenses have been with 1,415 lower compared to the first semester of 2016.

Expenses regarding the ancillary services

The expenditures regarding the ancillary services have recorded a decrease in the first semester of 2017, in the amount of 13,949.

In the reported period, the Company purchased ancillary services under regulated regime pursuant to the ANRE decisions and the applicable legal regulations.

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

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

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

Expenses on the balancing market

The expenses for the first semester of the current year related to the balancing market amounted to 805,048 following the evolution presented in the chapter *Revenues on the balancing market*.

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

18. OTHER OPERATING EXPENSES

	First semester 2017 (unaudited)	First semester 2016 (unaudited)
Other expenses on third party services	8,568	7,850
Postal expenses and telecommunication fees	737	871
Expenses on rents	5,502	5,250
Operating expenses related to the impairment of current assets	27,642	10,133
Other expenses	21,516	25,973
	63,965	49,850

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18. OTHER OPERATING EXPENSES (continued)

Such expenses increased in the period reported in the current year, compared to the similar period in 2016, mainly determined by the increase of the "Operating expenses related to the impairment of current assets".

19. NET FINANCIAL RESULT

	First semester 2017 (unaudited)	First semester 2016 (unaudited)
Interest Revenues	3,088	3,360
Revenues from exchange rate differences	9,104	11,748
Other financial revenue	22	1,285
Total Financial Revenue	12,215	16,393
Expenses on Interest	(9.634)	(12,752)
Expenses from exchange rate differences	(11.086)	(11,171)
Total Financial Expenses	(20,719)	(23,923)
Net Financial Result	(8,505)	(7,530)

The net financial result was negatively influenced mainly by the evolution of the position corresponding to other financial income. In 2016, this included the dividends collected from the Company's subsidiaries. In the first semester of 2017, the dividends corresponding to the Company's participation in TELETRANS have not been collected before June 30th, 2017.

The average exchange rate of the national currency registered in the first semester of 2017 and in the first semester of 2016 is as follows:

Currency	June 30st, 2017	June 30st, 2016
RON/ Euro	4.5362	4.4953
RON / Dolar SUA	4.1927	4.0302

20. INVESTMENT ACTIVITY FLOWS

In the investment activity, in SII 2016 the Company received 29,581 representing the advance not used related to the new line sector between Portile de Fier and Anina under Investment Objective "Transition to 400 kV voltage of axis Portile de Fier - Resita - Timisoara - Salacaz - Arad/ 400kv Portile de Fier - (Anina) – Resita OHL", until the issuance of Government Decision approving the technical and economic ratios and the initiation of the procedure of expropriation of privately-owned real estate.

21. LITIGATIONS AND CONTINGENCES

Litigations

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

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

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21. LITIGATIONS AND CONTINGENCES (continued)

- Pending with the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, the file no, 3616/101/2014 was recorded, involving the "claims in the amount of 1,091", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

The amount requested for payment represents penalties calculated by RAAN for the bonus due from the support scheme and withheld from payment by the Company, in its capacity as Administrator of the support scheme, who enforced the provisions of Article 17 (5) of ANRE's Order no.116 / 2013 (see Note 6).

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

The appeal was registered on the docket of the High Court of Cassation and Justice who, during the appeal filtering proceedings, decided the following: grants the appeal in principle declared by the appellant - defendant CNTEE Transelectrica SA against decision no, 843 / 2015 from November 5th, 2015, pronounced by the Court of Appeal Craiova - Section II Civil, Sets the hearing for solving the appeal on March 21st, 2017. On March 21st, 2017, the High Court of Cassation and Justice admitted the appeal declared by defendant National Power Grid Company "Transelectrica" SA against decision no, 843/2015 of November 5th, 2015, pronounced by the Court of Appeal Craiova – Section II Civil, Final, Hearing: September 7th, 2017.

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

Under these conditions, RAAN calculated penalties for late payment of the due cogeneration bonus in the amount of 3,497, withheld from the payment by the Company in the account of non-cashed receivables, The amount of 3,497 was refused for payment by the Company and was not registered as a liability in the support scheme.

- Pending with the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, the file no, 1284 / 101 / 2015 was recorded, involving the "claims in the amount of 11,637", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities - RAAN, By the application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 11,637.

On May 22th, 2015, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, ruled the sentence no, 41 / 2015, by which it ordered the following: 'Admits the exception for lacking territorial jurisdiction, Declines jurisdiction in favour of Bucharest Court, Section VI Civil, With no means of appeal.' The file was registered to the Bucharest Court - Section VI Civil, under no, 24206 / 3 / 2015.

The applicant RAAN filed a request to amend the amount of the alleged right, seeking the increased amount of 17,806 from Transelectrica SA.

Bucharest Court reserved judgement on October 16th, 2015, postponing the judgement until October 30th, 2015, and then until November 2nd, 2015, and then until November 3rd, 2015.

On November 3rd, 2015, the Bucharest Court, Section VI Civil delivered the sentence no, 6075 / 2015, by which it ordered the following: 'Upholds the application in the way it was completed, Orders the defendant to pay the plaintiff the amount of 17,806, representing the equivalent value of the bonus and penalties. Dismisses the application for granting legal expenses, lodged by the plaintiff, as ill-founded, With appeal within 30 days from communication, The appeal is lodged at the Bucharest Court - Section VI Civil.'

The ruling was communicated on July 4th, 2016, according to the registration entry stamp of the

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21. LITIGATIONS AND CONTINGENCES (continued)

correspondence with Transelectrica SA.

An appeal was lodged against the sentence, By Hearing protocol from January 12th, 2017, pronounced in the file no, 24206 / 3 / 2015, the Court of Appeal Bucharest ordered the postponement of the hearing of the appeal until the final settlement of the file no, 9089 / 101 / 2013 / a152 on the docket of the Mehedinti Court, on the grounds of Article 413 (1) (1) of the New Civil Procedure Code, With appeal throughout the suspension.

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

- Pending with the Bucharest Court - Section VI Civil the file no. 26024 / 3 / 2015 was recorded, involving the "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By the application for summons filed by the applicant, they asked Transelectrica SA to pay the amount of 10,275.

The court reserved judgement on June 13th, 2016, postponing the ruling until June 27th, 2016 when, by hearing protocol, it ordered the redocking of the case in order to discuss the administration of additional evidence to establish mutual debts and compensation invoked by the defendant, to date, setting the next hearing on November 28th, 2016.

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

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

- Pending with the Bucharest Court - Section VI Civil the file no, 3694 / 3 / 2016 was recorded, involving "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 15,699.

The court reserved judgement until June 9th, 2016, postponing the judgement until June 23rd, 2016 and then until June 30th, 2016 when, by hearing protocol, it ordered the redocking of the case, considering that new clarifications from the parties were necessary, setting the next hearing on August 17th, 2016, and on October 13rd, 2016 respectively.

On the grounds of Article 413 (1) (1) of the Civil Procedure Code, on October 20th, 2016, the Bucharest Court ordered the suspension of judgement until the final settlement of the file no, 3014 / 2 / 2014, With appeal throughout the suspension.

- Pending with the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, the file no, 9089 / 101 / 2013 / a140 was recorded, involving the "claims in the amount of 86,513", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities - RAAN, By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 86,513.

On May 19th, 2016, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, pronounced a hearing protocol by which it ordered the following: "on the grounds of Article 413 (1) of the Civil Procedure Code, suspends the case until the settlement of the file no. 3014 / 2 / 2014 on the docket of the High Court of Cassation and Justice, With appeal throughout the suspension, Pronounced today, May 19th, 2016, in open court."

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

Through the sentence no. 387 / March 20th, 2014, the Mehedinti Court confirmed the reorganization plan of the debtor Autonomous Administration for Nuclear Activities, proposed by the insolvency administrator

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21. LITIGATIONS AND CONTINGENCES (continued)

Tudor & Partners SPRL and voted on by the General Assembly of Creditors according to the minutes of February 28th, 2014.

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

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

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

Together with filing the receivables declaration in the bankruptcy proceedings of RAAN, Transelectrica SA may invoke the provisions of Article 52 of Law no. 85 / 2006, applicable to the bankruptcy proceedings for RAAN, provisions taken from Article 90 of Law no. 85 / 2014 concerning the creditor's right to invoke the compensation of his receivable with the one of the debtor, when the legal provisions on compensation in legal proceedings are completed on the date of commencement of the procedure.

Transelectrica SA has been registered in the table of debtor RAAN with the amount of 11,265 under the category of receivables resulting from the continuation of the debtor's activity, the amount requested by our company being equal to 89,361, our amount of 78,096 not being registered in the preliminary table because "this is not listed as owed in RAAN's accounting records." Moreover, the liquidator considered that the request regarding the registration in the table of the amount equal to 78,096 is tardily filed, being related to the timeframe 2011 – 2013, reason for which the receivable declaration should have been filed at the moment of commencement of the insolvency proceedings, namely on September 18th, 2013. Objection was filed against the Table, The Mehedinti Court approved the evidence with the audit expertise, Hearing on September 15th, 2017.

- Following a verification conducted in 2013, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification, The decision and protocol issued by the Court of Auditors have been appealed before the Court of Appeal Bucharest, the file no. 1658 / 2 / 2014 being constituted.

At the hearing from January 20th, 2016, the court postponed the case so that the appointed accounting expert can express his point of view regarding the objections of the plaintiff against the expert report concerned and so that the technical expert can perform the expertise, On June 29th, 2016, the court postponed the case so that the technical expertise report may be finished, The next hearing was set on October 26th, 2016, and until the date of drafting this report, no other changes have been registered.

At the hearing from February 8th, 2017, the objections against the expert report have been notified, At the hearing from March 22th, 2017, the case was postponed so that the technical expert can reply to the objections filed against the technical expertise report (second part) drafted in the case, Hearing: September 6th, 2017.

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

On June 26th, 2014, the ANRE Order no. 51 was issued, published in the Official Journal under no. 474 / June 27th, 2014 on the approval of the average tariff for the transmission service, the tariff for the system service and the zonal tariffs for the transmission service, payable to the National Power Grid Company

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21. LITIGATIONS AND CONTINGENCES (continued)

“Transelectrica” - SA, and the repealing of Addendum no. 1 of the ANRE Chairman’s Order no.96 / 2013 regarding the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the tariffs for the reactive electrical energy, payable to economic agents from the electricity sector.

The values taken into consideration for calculating the Regulated Rate on Return (RRR¹) by ANRE, according to the Methodology on establishing the tariffs for the electricity transmission service, approved by ANRE Order no. 53 / 2013 (“the Methodology”) have determined a RRR value of 7.7%, CNTEE Transelectrica SA considers that the enforcement of the provisions of Article 51 of the Methodology on establishing the Beta (β) parameter at the value of 0.432 shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138,400³, having a significant impact on the financial interests of the company.

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

At the hearings from March 25th, 2016, April 22nd, 2016, June 10th, 2016 and March 3rd, 2017, the court postponed the judgement of the cause because of the missing technical expertise report. The next hearing was set for September 5th, 2017.

- On March 4th, 2014, the European Commission issued a communication stating that it has imposed a fine of 1,031,000 EUR to the subsidiary of SC OPCOM S.A. for the abuse of dominant position on the Romanian market in order to facilitate the trading of electricity on the spot market, in breach of the EU antitrust rules. The Company was included in the trial acting as parent company to the subsidiary SC OPCOM S.A., being jointly responsible for paying the fine.

The General Assembly of the subsidiary SC OPCOM SA shareholders, at the meeting from June 10th, 2014, decided upon full payment of the fine amounting to 1,031,000 euro imposed by the Directorate General for Competition – European Commission for breaching of Article 102 of the Treaty on the Functioning of the European Union, according to the Decision no. AT 39984 in the antitrust case. The subsidiary SC OPCOM SA has made full payment of the fine set by the European Commission.

On November 24th, 2014, the subsidiary SC OPCOM SA summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086.31 euro (2.585 at the National Bank of Romania exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro.

Also, the subsidiary SC OPCOM SA requested the court to order the Company to pay the amount of 85 as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 38.

The action filed by the subsidiary SC OPCOM SA is subject of the file no. 40814 / 3 / 2014 on the docket of the Bucharest Court, Section VI Civil, involving claims, litigation with professionals’ matter, CNTEE Transelectrica SA has lodged counterclaim against the application for summons in this case, invoking exceptions and defenses on the main issue of the matter regarding the unfounded and unlawful character of the action.

On July 24th, 2015, the Bucharest Court ruled the judgement no. 4275 / 2015, by which it ordered the following: “Admits the application for summons filed by plaintiff Romanian Gas and Electricity Market Operator - OPCOM S.A, against defendant National Power Grid Company “Transelectrica” S.A, Orders the defendant to pay the plaintiff the amount of 582,086,31 euro, representing the amount paid by the plaintiff in the defendant’s stead from the fine in the amount of 1,031,000 euro, imposed by the Decision of the European Commission on March 5th, 2014 in the case no. AT.39984 and of the lawful interest related to the amount of 582,086,31 euro, calculated on June 11th, 2014 and up until the day of the actual payment, Orders the defendant to pay the plaintiff the amount of 38, as legal expenses, With right of appeal within 30 days from notification. The request for appeal shall be lodged before the Bucharest

¹ RRR - Regulated Rate on Return is presented in the technical literature as WACC – Weighted Average Cost of Capital – translated as Weighted Average Cost of Capital, the equation of both indicators being similar: $RRR = WACC = CCP + Kp / (1 - T) + CCI \times Ki$

² The value that caused the decrease of the RRR to 7.7%

³ Calculated value compared to the RRR of 8.52%

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21. LITIGATIONS AND CONTINGENCES (continued)

Court – Section VI Civil.”

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

OPCOM S.A. filed a second appeal. The case is in the filtering proceedings. The hearing is to be set.

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

- In 2013, Conaid Company SRL took legal actions against CNTEE Transelectrica for the unjustified refusal of the latter to sign an addendum to the connection agreement or to sign a new connection agreement, and requested the compensation for costs incurred up to that time, amounted to 17,420 and loss of profit for the period 2013 - 2033 amounting to EUR 722,756,000. So far, the Company did not conclude an addendum to the connection agreement because the suspensive provisions included therein have not been met by Conaid Company SRL, A new connection agreement would have had to be concluded by March 11th, 2014, the date on which the technical connection permit has expired, On the date of these financial statements, the amounts claimed by Conaid Company SRL were regarded as contingent liabilities as it is unlikely to settle this obligation, there will be necessary outflows of resources embodying economic benefits and the value of obligation cannot be evaluated with sufficient reliability, The file no. 5302 / 2 / 2013 was on the docket of the High Court, involving the obligation of issuing of an administrative document, the procedural stage – second appeal, the hearing being on December 9th, 2015. At this hearing, the High Court of Cassation and Justice admitted, in principle, the second appeals and set the hearing, in substance, of the second appeals on April 8th, 2016, Formation 4, summoning the parties. The case trial was postponed for the date of June 17th, 2016, when the court reserved judgement, postponing the judgement until June 29th, 2016, when it pronounced Decision no. 2148 / 2016, by which it ordered the following: ‘Rejects the exceptions invoked by the appellant - plaintiff S.C, Conaid Company S.R.L., via insolvency administrator RVA Insolvency Specialists SPRL, and by the appellant - defendant National Company for Energy Transportation Transelectrica S.A. Admits the second appeal filed by the defendant National Company for Energy Transportation Transelectrica S.A. against the hearing protocol of February 18th, 2014 and the civil sentence no. 1866 of June 11th, 2014, pronounced by the Court of Appeal Bucharest – Section VIII, Administrative and Fiscal Litigation Section. Partially invalidates the contested protocol and judgment and refers the case to the Bucharest Court – Section VI Civil, for settlement of the application of the plaintiff sought against the National Power Grid Company Transelectrica S.A. Maintains the other provisions of the sentence concerning the plaintiff’s action against the National Regulatory Authority for Energy. Rejects the second appeals of the plaintiff SC Conaid Company S.R.L, via insolvency administrator RVA Insolvency Specialists SPRL and the intervener S.C. Duro Felguera S,A, against the civil sentence no, 1866 of June 11th, 2014 pronounced by the Bucharest Court of Appeal – Section VIII, Administrative and Fiscal Litigation. Rejects the second appeal filed by the defendant National Power Grid Company Transelectrica S.A. against the hearing protocol from March 25th, 2014, pronounced by the Bucharest Court of Appeal - Section VIII, Administrative and Fiscal Litigation, Final, Ruled in open court today, June 29th, 2016”.

The file no. 5302 / 2 / 2013 has been forwarded to the Bucharest Court - Section VI Civil, for retrial, under no. 12107 / 3 / 2017, with hearing set on September 28th, 2017.

- The company is involved in significant litigations in which it has the quality of plaintiff, especially for debt recovery (e.g. Eco Energy SRL, Petprod SRL, Total Electric Oltenia SA, Arcelormittal Galati SA, Regia Autonoma de Activitati Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL, Elsaco Energy, Elcomex). The company recorded adjustments for valuable losses for the customers and other receivables in litigation and for the customers in bankruptcy. The Company also acted as plaintiff in a dispute with ANAF as shown in Note 6.

- The Company is also involved in litigations with former Directorate and Supervisory Board members

The accompanying notes form an integral part of these condensed consolidated interim financial statements
Free translation from the original Romanian version

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21. LITIGATIONS AND CONTINGENCES (continued)

regarding mandate contracts, in which has the quality of defendant.

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

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

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

Contingencies

At Transelectrica SA's headquarters the general tax inspection took place, which regarded the period between December 2005 and December 2010. The general tax inspection commenced on December 14th, 2011 and ended on June 26th, 2017, the date of the final discussion with Transelectrica SA.

ANAF – DGAMC set forth additional tax payment liabilities to the Company, respectively corporation tax and VAT, as well as ancillary tax liabilities (interest/late interest and late payment interest) related to the ancillary services (STS) invoiced by the electricity suppliers, considered not deductible following the tax inspection.

On the grounds of the Notice of assessment no, F-MC 439/30.06.2017 amounting to a total of 99,013, ANAF – DGAMC set forth additional tax payment liabilities to the Company amounting to 35,105, as well as ancillary tax liabilities (interest/late interest and late payment interest) amounting to 63,908.

ANAF's Tax inspection report mainly records the following additional payment liabilities:

- Corporation tax amounting to 13,727 plus accessories, owed for a number of 123 unused invoices identified as missing (they were destroyed in the fire that broke out the night of June 26th - 27th, 2009, at the business office from Millennium Business Center from 2 – 4 Armand Calinescu Street, District 2, where the company carried out its activity), documents under special regime.

These invoices were subject to a litigation with ANAF, the latter sending a tax inspection report on September 20th, 2011 which estimated the amount of collected VAT for a number of 123 unused invoices identified as missing.

At the hearing from April 30th, 2014, the court of first instance - Bucharest Court of Appeal, Section VIII Administrative and Fiscal Litigation (Decision no, 1356 / 2014) in case no. 6657 / 2 / 2012 rejected “the application of the defendant CNTEE Transelectrica SA is rejected (Complaint against the Fiscal administrative document issued by ANAF)”.

On March 1st, 2017, through decision no. 779, the High Court of Cassation and Justice ordered the following: ‘rejects the exception of inadmissibility of the appeal for annulment filed by the contesting

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21. LITIGATIONS AND CONTINGENCES (continued)

party Transelectrica SA, advanced via counterstatement by appellee General Directorate for Large Taxpayers Management. Rejects the appeal for annulment filed by the contesting party Transelectrica SA against Civil Decision no, 1945 from June 16th, 2016 of the High Court of Cassation and Justice - Administrative and Fiscal Litigation Section, ruled in file no, 6657 / 2 / 2012, as ill-founded, Irrevocable.”

- Corporation tax amounting to 4,795 and collected VAT amounting to 5,695 plus accessories, owed for a number of 349 unused invoices identified as missing (they were destroyed in the fire that broke out the night of June 26th - 27th, 2009, at the business office from Millennium Business Center from 2 - 4 Armand Calinescu Street, District 2, where the company carried out its activity), documents under special regime.
- Corporation tax amounting to 4,320 and collected VAT amounting to 5,130, plus accessories, related to the expenses on ancillary services invoiced by the generators in the time interval between January 1st, 2007 and December 31st, 2010 and according to which the Company issued penalty invoices calculated by applying a percentage of 200% on the unit price without VAT, multiplied by the quantity of services not carried out. According to the findings of the tax inspection team, based on the issued penalty invoices non-deductible expenses have been set forth for the ancillary services not performed / not carried out, which generates additional corporation tax to be paid, as well as additional VAT to be paid, corresponding to the ancillary services not performed / not carried out, invoiced by the electricity suppliers.

The company sent within the legal deadline, accordingly to the provisions of Government Emergency Ordinance no, 92 / 2003, regarding Fiscal Procedure Code, the appeal to the Notice of assessment no. F-MC 439/30.06.2017.

22. TRANSACTIONS WITH RELATED PARTIES

Transactions with other State-owned companies

The Group's transactions for the transmission of electricity and other activities delivered as system operator and operator of the electricity market are carried out based on contractual relations, regularly with majority State-owned companies (for instance, Electrica Furnizare SA, Electrica SA, Hidroelectrica SA, Complexul Energetic Oltenia SA, Electrocentrale Bucuresti SA, Nuclearelectrica SA, SC Complexul Energetic Hunedoara SA etc.).

These are reported according to the capital market requirements provided by Law 24/2017.

23. FINANCIAL INSTRUMENTS

a) Causes of financial risks

Credit risk

The credit risk is the risk where the Group bears a financial loss if a client or a counterparty, in a financial instrument fail to fulfil their contractual obligations, This risk mainly results from trade receivables and cash and cash equivalents.

The counterparty risk is treated based on internal and external success factors of the Group, External success factors – which have effect on the systematic mitigation of risk: the decentralization of the energy sector where production, transmission, distribution and delivery are distinct activities, and the interface with the consumer is ensured by the provider, the trading of electricity on the Romanian market on two market segments: regulated market and competition market, Internal success factors in treating counterparty risk include: extension of client portfolio and extension of services offered on the electricity market.

Financial assets, which may expose the Group to collection risk, include mainly trade receivables and cash and cash equivalents, The Group has implemented policies through which it makes sure that services are sold to clients that can pay properly, by including in the commercial contracts their obligation to establish financial securities, The value of receivables, net of impairment allowances, is the maximum amount subject to collection risk.

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23. FINANCIAL INSTRUMENTS (continued)

The maximum exposure to collection risk as at the reporting date is:

	Net value	
	June 30 th , 2017 (<i>unaudited</i>)	December 31 st , 2016 (<i>audited</i>)
Financial assets		
Net trade receivables	702,699	774,993
Cash and cash equivalents	660,911	960,489
Other net receivables	42,964	89,339
Other financial assets	165,100	135,090
Total	1,571,674	1,959,911

The status of the maturity of receivables on the day of drafting the report of the financial position, is presented below:

	Gross Value June 30 th , 2017	Adjustment of depreciation June 30 th , 2017	Gross Value December 31 st , 2016	Adjustment of depreciation December 31 st , 2016
Not due	531,834	4,032	648,510	5,550
Due date exceeded by 1 to 30 days	10,031	62	13,257	-
Due date exceeded by 31 to 90 days	72,237	1,667	6,222	-
Due date exceeded by 90 to 180 days	34,562	26,043	1,152	359
Due date exceeded by 180 to 270 days	7,488	2,725	27,315	7,725
Due date exceeded by 270 to 365 days	865	779	6,256	-
Due date exceeded by more than a year	176,843	95,854	175,662	89,746
Total	833,860	131,161	878,374	103,381

The status of the maturity of "Other receivables" on the date of drafting the report of the financial position, is presented below:

	Gross Value June 30 th , 2017	Adjustment of depreciation June 30 th , 2017	Gross Value December 31 st , 2016	Adjustment of depreciation December 31 st , 2016
Not due	16,939	10	68,799	2,501
Due date exceeded by 1 to 30 days	107	37	16	9
Due date exceeded by 31 to 90 days	128	38	57	30
Due date exceeded by 90 to 180 days	210	106	6,064	4,791
Due date exceeded by 180 to 270 days	54	20	2,317	669
Due date exceeded by 270 to 365 days	6,047	4,920	3,160	595
Due date exceeded by more than a year	110,885	86,276	101,201	83,678
Total	134,370	91,407	181,613	92,274

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23. FINANCIAL INSTRUMENTS (continued)

On June 30th, 2017, the highest adjustments of depreciation, calculated for the trade receivables and related penalties, have been recorded for SC Petprod SRL (29,242), SC Eco Energy SRL (24,736), Arelco Power (18,565), SC Total Electric Oltenia SA (14,186), Romenergy Industry (13,513), Elsaco Energy (9,365), RAAN (8,584), Also Energ (7,177), CET Brasov (4,719), Opcom (4,517). The Company took the following measures in order to recover the impaired receivables: court proceedings, entering on the statement of affairs, requesting clarifications from ANAF (regarding the VAT collected from Opcom) and so on.

The evolution of depreciation adjustments for uncertain receivables is presented as follows:

	June 30th, 2017	December 31st, 2016
	<i>(unaudited)</i>	<i>(audited)</i>
Balance on the 1st of January	103,381	89,312
Recognition of impairments	33,841	22,607
Reversal of impairments	(6,061)	(8,538)
Balance at the end of the period	131,161	103,381

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

	June 30th, 2017	December 31st, 2016
	<i>(unaudited)</i>	<i>(audited)</i>
Balance on the 1st of January	92,274	86,429
Recognition of impairments	559	7.501
Reversal of impairments	(1,426)	(1.656)
Balance at the end of the period	91,407	92.274

Financial assets that may submit the Group to the risk of collection are mainly the trade receivables and the cash and cash equivalents. The Group has enforced a series of policies that ensure that the sale of services is performed towards the customers with an appropriate collection by including in their commercial contracts of their obligation to provide financial guarantees. The value of receivables, net of the adjustments for value losses, represents the maximum amount exposed at the risk of collection. The risk of collection related to such receivables is limited, as these amounts are mainly owed by the state-owned companies.

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

24. SUBSEQUENT EVENTS

The ANRE Order no. 48/2017 on the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the regulated price for reactive electrical energy

In the Official Journal no. 489/28.06.2017 the ANRE Order no. 48/2017 on the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the regulated price for reactive electrical energy, payable to the Company.

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24. SUBSEQUENT EVENTS (continued)

Credit rating assigned by International Credit rating agency Fitch Ratings

On July 4th, 2017, international rating agency Fitch Ratings assigned to the Company a BBB rating, stable outlook. This credit opinion recognizes Company's effort to achieve operational excellence and for its responsible approach to the business environment in which it operates.

The condensed consolidated interim financial statements presented were approved by the management on October 26, 2017 and executed on its behalf by:

Directorate,

**Georgeta –
Corina POPESCU**
President of the
Directorate

**Florin – Cristian
TATARU**
Member

**Andreea Georgiana
FLOREA**
Member

**Mircea - Toma
MODRAN**
Member

**Dan - Valeriu
ARDELEAN**
Member

Cristina STOIAN
Accounting and
Financial Strategy
Director

Cristiana ZIRNOVAN
Budgeting and
Managerial Reporting
Manager