

NPG TRANSELECTRICA SA

Two-Tier Company

Consolidated Financial Statements
on the date and for the financial year concluded on
December 31st, 2018

Drawn up according to the
Order of the Ministry of Public Finance no. 2844/2016
as subsequently amended and supplemented
on the approval of accounting regulations
in line with the International Financial Reporting Standards

free translation

NPG TRANSELECTRICA SA

Consolidated Statement of Financial Position for the period concluded on December 31st, 2018

(All amounts are expressed in RON, unless otherwise indicated)

	Nota	December 31st, 2018	December 31, 2017 as per AGA Decision no. 6 of 30.04.2018
Assets			
Fixed assets			
Tangible assets	5	3,043,346	3,085,762
Intangible assets	6	23,152	15,612
Financial assets	6	34,843	32,636
Total fixed assets		3,101,342	3,134,010
Current assets			
Inventories	7	54,085	50,106
Trade receivables and other receivables	8	1,069,938	825,949
Cash and cash equivalents	9	505,494	553,875
Total current assets		1,629,517	1,429,930
Total assets		4,730,858	4,563,940
Shareholders' equity and liabilities			
Equity			
Share capital		733,031	733,031
Share premium		49,843	49,843
Legal reserve		123,742	119,153
Revaluation reserve		551,185	408,899
Other reserves		66,705	57,627
Retained earnings		1,315,729	1,366,936
Equity attributable to the owners of the Group		2,840,236	2,735,489
Non-controlling interests	26	1,335	4,065
Total equity		2,841,571	2,739,554
Long-term debt			
Long term deferred income	11	411,155	412,866
Loans	12	143,866	195,186
Deferred tax liabilities	14	61,016	27,263
Employee benefits obligations	13	65,986	62,513
Total non-current liabilities		682,023	697,828

NPG TRANSELECTRICA SA

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(All amounts are expressed in RON, unless otherwise indicated)

	Nota	December 31st, 2018	December 31, 2017 as per AGA Decision no. 6 of 30.04.2018
Current debt			
Trade payables and other payables	14	1,018,348	693,349
Other taxes and social insurance liabilities	18	11,578	11,225
Loans	12	61,149	338,183
Provisions	15	96,494	42,921
Short term deferred income	11	19,329	40,881
Income tax to be paid		367	0
Total current liabilities		1,207,264	1,126,558
Total liabilities		1,889,287	1,824,386
Total shareholders' equity and liabilities		4,730,858	4,563,940

This Consolidated Financial Statements has been approved by the management on March 20, 2019 and has been signed on its behalf by:

Directorate,

**Marius – Dănuț
CARAȘOL**

President

**Claudia - Gina
ANASTASE**

Member

**Adrian
SAVU**

Member

**Andreea Georgiana
FLOREA**

Member

**Constantin
SARAGEA**

Member

Ana-Iuliana DINU

Manager

Economic, Financial & Administrative Unit

Cristiana ZIRNOVAN

Manager

Budgeting and Management Reporting Department

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Consolidated Statement of Profit and Loss for for the period concluded on December 31st, 2018

(All amounts are expressed in RON, unless otherwise indicated)

	Nota	December 31st, 2018	December 31st, 2017
Revenues			
Revenues from electricity transmission		1,069,837	1,054,629
Revenues from system services		701,622	650,747
Revenues on the balancing market		903,865	1,304,613
Other incomes		50,281	58,015
Total revenues	19	2,725,605	3,068,004
Cheltuieli din exploatare			
Operating expenses	20	(308,872)	(257,917)
System Operating Expenses	20	(903,865)	(1,304,613)
Balancing market expenses	20	(677,725)	(661,323)
Expenses with the technological system services		(306,967)	(321,027)
Expenses for staff		(248,804)	(237,262)
Expenses for repair and maintenance		(62,466)	(52,383)
Expenses for materials and consumables		(28,312)	(22,206)
Other operating expenses	21	(89,635)	(147,127)
Total operating expenses		(2,626,647)	(3,003,859)
Operational profit		98,957	64,145
Financial revenues		16,020	17,229
Financial expenses		(25,758)	(40,854)
Rezultat financiar net	22	(9,738)	(23,625)
Rezultat inainte de impozitul pe profit		89,219	40,520
Net financial result	22	(13,839)	(19,096)
Result for the year from continuing operations		75,380	21,424
Result for the year			
Attributable to:			
Owners of the Group		78,110	22,843
Non-controlling interests		(2,730)	(1,419)
Basic and diluted lost/earnings per share (lei/share)	17	1.03	0.29

NPG TRANSELECTRICA SA

Consolidated Statement of Profit and Loss for for the period concluded on December 31st, 2018

(All amounts are expressed in RON, unless otherwise indicated)

Nota	December 31st, 2018	December 31st, 2017
Result of the financial year	75,380	21,424
Other comprehensive income		
Elements which will not be reclassified in the profit and loss account, out of which:		
- Effect of taxation on revaluation reserve	(36,607)	0
- Surplus from the revaluation of tangible assets	119,080	0
- Actuarial losses on defined benefit plans	(2,958)	(5,035)
Other comprehensive income (AERG)	79,515	(5,035)
Total comprehensive income for the year	154,895	16,389
Attributable to:		
Owners of the Group	78,110	22,843
Non-controlling interests	(2,730)	(1,419)

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Consolidated Statement of Changes in Shareholders' Equity for the period concluded on December 31st, 2018

(All amounts are expressed in RON, unless otherwise indicated)

	Registered capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Attributable to the owners of the group	Non controlling interests	Total
Balance on January 1st, 2017	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									
Result for the year	-	-	-	-	-	21,424	21,424	-	21,424
Other comprehensive income	-	-	-	-	-	-	-	-	-
Defined benefit plan actuarial loss	-	-	-	-	-	(5,035)	(5,035)	-	(5,035)
Surplus from revaluation of tangible assets	-	-	-	-	-	-	-	-	-
Deferred tax liability generated by revaluation reserve	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	(5,035)	(5,035)	-	(5,035)
Total comprehensive income for the year	-	-	-	-	-	16,389	16,389	-	16,389
Legal reserve	-	-	-	-	-	-	-	-	-
Transfer of revaluation reserve to retained earnings	-	-	-	(49,285)	-	49,285	-	-	-
Increase of the legal reserve	-	-	2,601	-	-	(2,601)	-	-	-
Adjustment for inflation of share capital to cover losses resulted from applying IAS 29	-	-	-	-	-	-	-	-	-
Non-controlling interests arising from decrease of ownership in SMART SA	-	-	-	-	-	1,419	1,419	(1,419)	-
Other elements	-	-	-	-	-	(75,727)	(75,727)	-	(75,727)
Total other elements	-	-	2,601	(49,285)	-	(27,624)	(74,308)	(1,419)	(75,727)
Tranzactii cu actionarii recunoscute direct in capitalurile proprii									
Land derecognition	-	-	-	-	-	(50)	(50)	-	(50)
Dividends distributed from the profit of 2016	-	-	-	-	-	(165,445)	(165,445)	-	(165,445)
Special dividends according to GO 29/2017	-	-	-	-	-	(170,796)	(170,796)	-	(170,796)
Total transactions with owners	-	-	-	-	-	(336,291)	(336,291)	-	(336,291)
Balance on 31 December 2017 as per AGA decision no. 6 of 30.04.2018	733,031	49,843	119,153	408,899	57,627	1,366,936	2,735,489	4,065	2,739,554

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Consolidated Statement of Changes in Shareholders' Equity for the period concluded on December 31st, 2018

(All amounts are expressed in RON, unless otherwise indicated)

	Registered capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Attributable to the owners of the group	Non controlling interests	Total
Balance on 01 January 2018 as per AGA decision no. 6 of 30.04.2018	733,031	49,843	119,153	408,899	57,627	1,366,936	2,735,489	4,065	2,739,554
Overall result of the period									
Profit of the financial year	-	-	-	-	-	75,380	75,380	-	75,380
Other elements of the comprehensive income, from which:									
Recognition of Actuarial Losses regarding the Determined Plan of Benefits	-	-	-	-	-	(2,958)	(2,958)	-	(2,958)
Surplus from revaluation of tangible assets	-	-	-	119,080	-	-	119,080	-	119,080
Deferred tax liability for the revaluation reserve	-	-	-	(36,607)	-	-	(36,607)	-	(36,607)
Total Other Elements of the Global Result	-	-	-	82,473	-	(2,958)	79,515	-	79,515
Total Global Result of the Period	-	-	-	82,473	-	72,422	154,895	-	154,895
Other items									
Transfer of revaluation reserve to retained earnings	-	-	-	(57,499)	-	57,499	-	-	-
Increase of the legal reserve	-	-	4,781	-	-	(4,781)	-	-	-
Non-controlling interests arising from decrease of ownership in SMART SA	-	-	-	-	-	2,730	2,730	(2,730)	-
Total other items	-	-	4,781	(57,499)	-	55,448	2,730	(2,730)	-
Contributions by and distributions to owners									
Reclassification of prious year's	-	-	(192)	117,312	(632)	(112,370)	4,118	-	4,118
Subventii aferente imobiliarilor de natura patrimoniului public (taxa de racordare)	-	-	-	-	9,711	-	9,711	-	9,711
Distribution of dividends from the profit of the year	-	-	-	-	-	-	-	-	-
Distribution of additional dividends as per GO no. 29/2017	-	-	-	-	-	(66,706)	(66,706)	-	(66,706)
Adjustments to retained earnings	-	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	(192)	117,312	9,078	(179,076)	(52,877)	-	(52,877)
Balance as at 31 December 2018	733,031	49,843	123,742	551,185	66,705	1,315,731	2,840,237	1,335	2,841,572

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Consolidated Statement of Cash Flows for for the period concluded on December 31st, 2018

(All amounts are expressed in RON, unless otherwise indicated)

	December 31st, 2018	December 31, 2017 as per AGA Decision no. 6 of 30.04.2018
Cash generated from operating activities		
Recording loss in retained earnings from correction off accounting errors	0	(75,727)
Profit of the period	75,380	21,424
Adjustments for:		
Income tax expense	13,839	19,096
Amortisation expenses	306,967	321,027
Expenses with adjustments for trade receivables impairment	12,956	74,586
Reversal of adjustments for trade receivables impairment	(8,645)	(61,874)
Losses from various debtors	55	45,081
Net expenditures/loss with adjustments for various debtors impairment	(32,914)	0
Net expenditures with adjustments for inventories impairment	352	1,612
Net loss on disposal of property, plant and equipment	99	838
Net expenditures on adjustments regarding tangible assets	1,569	382
Net expenses/revenues of provisions for risks and expenses	54,051	(12,884)
Financial expenses regarding the adjustments for impairment of fixed assets	0	2,867
Interest expenses, interest revenues and unrealized revenues from exchange rate differences	8,631	21,484
Cash flows before changes in the current capital	432,340	357,912
Changes in:		
Inventories	(3,979)	(6,243)
Clients and assimilated accounts	(214,992)	(10,374)
Liabilities paid according to NAFA tax decision	0	(99,891)
Trade payables and other liabilities	277,717	(81,148)
Other taxes and social insurance liabilities	353	(1,066)
Deferred revenues	(22,974)	(17,970)
Cash generated from operating activities	468,466	141,220
Paid interests	(20,948)	(22,246)
Paid income tax	(12,865)	(8,861)
Net cash from the operating activity	434,654	110,013
Cash flows from the investment activity		
Acquisition of tangible and intangible assets	(173,236)	(191,801)
Proceeds from EC grants	11,646	0
Collected interests	9,867	5,991
Owned shareholdings at TSC NET	(2,207)	0
Collection from sales of tangible assets	688	26
Other financial assets	0	135,090
Net cash used in the investment activity	(153,242)	(50,694)

NPG TRANSELECTRICA SA

Consolidated Statement of Cash Flows for for the period concluded on December 31st, 2018

(All amounts are expressed in RON, unless otherwise indicated)

	December 31st, 2018	December 31, 2017 as per AGA Decision no. 6 of 30.04.2018
Treasury flows used in the financing activity		
Repayments of short term borrowings	0	3,776
Repayments of long term borrowings	(113,900)	(134,372)
Repayments of shot term borrowings	(13,282)	0
Reimbursement of liabilities	(200,000)	0
Special dividends accordingly with GD 29/2017	0	(169,799)
Paid dividends	(2,610)	(165,541)
Net cash used in financing activities	(329,792)	(465,935)
Cash and cash equivalents as of 1 January	553,875	960,489
Net decrease of cash and cash equivalents	(48,381)	(406,614)
Cash and cash equivalents at the end of the period	505,494	553,875

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Notes to the consolidated financial statements as at December 31st, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

1. DESCRIPTION OF THE ACTIVITY AND GENERAL INFORMATION

The main activity of CNTEE Transelectrica SA ("The Company") consists of: electricity transmission services and system service, operator of the balancing market, administrator of the bonus type support scheme, other related activities. These activities take place according to the provisions of the business license no. 161/2000 issued by ANRE, updated through the Decision ANRE no. 641/25.04.2018, of the General Conditions associated to the license approved through the ANRE Order no. 104/2014 and of the final certification of the Company as a transport operator and system of the National Power System according to the model of separating the property ("ownership unbundling") based on ANRE Order no. 164/07.12.2015.

Adresa sediului social este: Bdul General Gheorghe Magheru nr. 33, Bucuresti, sectorul 1. In prezent, The registered headquarters are located in: 33 General Gheorghe Magheru Blvd., Bucharest, district 1. The Company's executive activity currently takes place at the working point in 2-4 Olteni street, district 3, Bucharest.

The stand-alone financial report as of 31 December, 2018, drafted according to the Order of the Ministry of Public Finances no. 2844/2016 on the approval of the Accounting arrangements pursuant to the International Financial Reporting Standards as subsequently amended, is available at the Company's offices from 2-4 Olteni street, district 3, Bucharest.

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

According to the Decision of the Extraordinary General Assembly of Shareholders from 18 July, 2012, the Company switched from one-tier to two-tier Company in order to perform a clear separation of the management activities from the controlling activities. Thus, the Company is managed by a Directorate under the supervision of a Board of Supervisors.

Infiintarea Companiei

Establishment of the Company

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

As described in Note 12, as of 31 December, 2017, the shareholders of the Company are: the Romanian State via the Ministry of Economy, Commerce and Tourism, which holds 43,020,309 shares (58.69%), DEDEMAN SRL with 4,192,363 (5.72%), other legal entity shareholders which hold 20,689,339 shares (28.22%) and other natural persons who are shareholders holding 5,401,131 shares (7.37%).

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

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

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

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

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at December 31st, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

The mission of the Group

Principalele filiale ale Grupului si procentul actiunilor detinute de Companie sunt prezentate in continuare:

Entity	The country of origin	December 31st, 2018	December 31st, 2017
		% of share	% of share
SMART SA	Romania	70	70
TELETRANS SA	Romania	100	100

SMART SA

SMART SA, with registered office at 33 Magheru Blvd., district 1, Bucharest, and head office located at the work point in 246 C Calea Floreasca, "Sky Tower" Building, 20th floor, district 1 Bucharest, has as main activities the provision of maintenance services for the transmission-dispatch system. It was established under GD 710/19.07.2001 on 1 November 2001. The share capital as of December 31st, 2018 amounted to 55,036,300, of which 38,528,600 is subscribed and fully paid up by the Company.

By Decision no. 14/10.12.2014, the Extraordinary General Assembly of Shareholders of SC Smart SA approved the company's share capital increase by in-kind contribution with the land plots value for which the certificate authenticating the ownership rights was obtained.

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

CNTEE Transelectrica SA - shares 3.852.860
- participation in profit and loss: 70.005%

Romanian State through the General Secretariat of the Government - shares 1,650,770
- participation in profit and loss: 29.994%

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

*) 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. Appeal right within 30 days from notification. The appeal shall be lodged at the Bucharest Court - Civil Section VI. 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, deciding as follows: "Rejects the appeal as ill-founded. 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."

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Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in “thousand LEI”, unless stated otherwise)

The main object of activity of the SC SMART SA subsidiary is reviewing and repairing of live apparatus and equipment, transformers and autotransformers, as well as the remedy of incidents in electric installations and micro-production of electric equipment. The Company has 8 subsidiaries with no legal personality, situated in the same

The mission for which SMART SA was set up is to provide preventive maintenance, special works and corrective maintenance of the Transmission Electricity Network (RET), starting from the primary objective of Transelectrica: to ensure the transport of electricity in the national transport network in safety and stability conditions.

As general strategic objectives, at least the following shall be considered:

- ✓ Ensuring high availability of assets in the RET
- ✓ Increasing flexibility in operation
- ✓ Decreasing intervention times
- ✓ Coordination of maintenance services/works with the National Energy Dispatcher (DEN)

TELETRANS SA

Subsidiary TELETRANS SA was established under AGA Decision no. 13/04.12.2002 of Transelectrica, pursuant to Law no. 31/1990 and the Orders no. 3098 and no. 3101 of 23.10.2002 issued by the Ministry of Industry and Trade and it is the provider of specific telecommunication and IT services for the operational and management activity of Transelectrica, having as main scope the provision of specific telecommunication services and information technology in the transmission electric networks.

Based on the Articles of Association and the applicable legislation, Teletrans holds the ANCOM certificate for networks or electronic communications service provider since 2002 (GEO no. 679/2002), allowing it the right to provide the following electronic communications services:

- ✓ Public electronic communications networks (starting with November 11th, 2004);
- ✓ Publicly available electronic communications services: (i) Leased line services and (ii) Electronic communications services other than telephony and leased lines (as of 01.07.2003);
- ✓ Private electronic communications networks and services (starting with January 15th, 2003).
- ✓ The TELETRANS staff also holds certifications relevant for the operation and management of IT&C systems dedicated to critical infrastructures.

The share capital as of December 31st, 2018 amounted to 6.874 mil lei of which 38,528,600 is subscribed and fully paid up by the Company.

Teletrans's results are consolidated with the Company's financial results.

The mission of the Group

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

Other information relating to the Group's activity

The participation of European transmission system operators (TSO) in ENTSO-E is regulated by the European legislation in force (Regulation no. 714/2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003): “All transmission system operators shall cooperate at Community level through the ENTSO for Electricity, in order to promote the completion and functioning of the internal market in electricity and cross-border trade and to ensure the optimal management, coordinated operation and sound technical evolution of the European electricity transmission network.”

The ENTSO-E membership of CNTEE Transelectrica SA is a prerequisite for the access to the decision-making process on the relevant European strategy and legislation and to protect and support the Company's interests in the activities/projects undertaken at the association and the European Commission level.

The accompanying notes form an integral part of the consolidated financial statements

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ENTSO-E was established in 2009 as a non-profit organization headquartered in Brussels, reuniting European TSO associations organized according to synchronically interconnected regions (UCTE, ETSO, BALTSO, NORDEL, UKTSOA, ATSOI). Transelectrica has been a member of UCTE and ETSO as of October 2004 - the Romanian power transmission system is included in the Continental Europe Regional Group.

The Company is an affiliate member to the following international organizations:

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

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

On July 5, 2018, Moody's Investors Service's credit rating agency published its updated credit rating, assessing Transelectrica's current and future ability to meet its payment obligations to creditors. The credit rating of Moody's Investors Service credit rating agency maintained the Company's rating at the level of the previous year, respectively Ba1, improving the perspective, from stable to positive.

Starting January 2017, the Company has signed a contract with Fitch Ratings International Credit Company.

On October 9, 2018, Fitch reconfirms the stable BBB rating for the company (one level above Romania's national rating - BBB-/stable perspective), as a recognition of the Company's efforts to achieve operational excellence and a responsible approach to the business environment in which it operates.

Legislative environment

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

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

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

The Company's operating activity has been carried out according to License no. 161/2000 for electricity transmission and provision of system services issued by ANRE, valid until 2025, revised by ANRE Decision no. 641/25.04.2018 and the General Conditions associated to the license approved by ANRE Order no. 104/2014, as subsequently amended and supplemented.

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

- the regulatory framework is relatively new and constantly prone to changes, which may affect the Company's performances;
- ANRE decisions regarding future tariffs may affect the Company's activity;

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

In accordance with the provisions of Law no. 123/2012 regarding electricity and natural gas, as subsequently amended and supplemented, the Romanian Energy Regulatory Authority (ANRE) approved, via Order no. 164/07.12.2015, the certification of the National Power Grid Company “Transelectrica” SA as transmission system operator of the National Power System according to the ownership unbundling model.

The ownership unbundling model has become available to the Company based on Law no. 123/2012

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in “thousand LEI”, unless stated otherwise)

regarding electricity and natural gas which transposes Directive 2009/72/EC.

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

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

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

Tariffs for the electricity transmission and system service

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

Regulated assets base (“RAB”)

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

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

The current regulatory period lasts five years (July 1st, 2014 – June 30th, 2019), and comprises five tariff years (the tariff year begins on July 1st and lasts for 12 months). Thus, 2018 was the year of transition from the fourth tariff year to the fifth (last) tariff year within the current regulatory period (the fourth tariff year ended June 30th, 2018, the fifth tariff year began on July 1st, 2018).

The regulated return on assets in 2018 for the electricity transmission activity was 7.7%, a value determined ANRE for the current regulatory period.

Inclusion of Transelectrica in the local and international stock exchange indexes

Starting 29.08.2006, CNTEE Transelectrica SA shares are traded on the regulated market managed by the BSE, in category I under the symbol TEL. Transelectrica shares are part of the BET index [which reflects the evolution of the 10 most traded companies on the BSE Regulated Market, excluding financial investment companies (SIFs)], with a share of 2.06% as of December 31st, 2018 (December 31st, 2017: 2.21%), with a stock exchange capitalization of 1,576,017,553 as of December 31st, 2018 (December 31st, 2017: 1,799,592,136).

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

The Company’s revenues

The main revenue generating activities of the Company are represented by the provision of the following services:

- Electricity transmission service;

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in “thousand LEI”, unless stated otherwise)

- System services (the technical operational management of the NPS);
- Balancing market operator.

Electricity transmission service

The transmission service consists in ensuring the electricity transmission between two or more points of the power transmission grid (“PTG”), under conditions of efficiency and safety, whilst observing the applicable performance standards.

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

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

System services

The Company’s responsibility is to maintain the National Power System operating uninterruptedly under safe conditions while complying with the quality standards provided in the technical code of the electricity transmission grid. To this effect, the Company uses its own resources called functional system services and purchases technological system services from electricity producers. CNTEE Transelectrica SA provides this service by using dispatch management systems under a tariff regulated and approved by ANRE, which is applied to the same base - electricity delivered to consumers - and includes the tariff for system services, also including the tariff for functional system services.

Technological system services are purchased from energy producers at the request of the Company pursuant to a competitive procedure regulated by ANRE, upon request of CNTEE Transelectrica SA for maintaining the operational safety of the NPS as well as the quality of electricity transmitted at the parameters required by the applicable legislation. CNTEE Transelectrica SA re-invoices the entire amount of system services purchased from producers (except for the active energy component which covers the PTG losses) to electricity suppliers licensed by ANRE which are the end beneficiaries of such services.

The functional system services pertain to the dispatch services provided by CNTEE Transelectrica SA and consist of planning and operationally managing the NPS, as well as the other activities of CNTEE Transelectrica SA in order to balance production against consumption in real time, in order to safely cover the electricity consumption at minimum costs whilst maintaining the operational safety level of the NPS.

Balancing market operator

In accordance with the provisions of the Commercial Code of the Wholesale Electricity Market, the balancing market was introduced and started functioning in Romania in July 2005. Starting September 1, 2018, the operation of the balancing market is regulated by the Rules on the calculation and settlement of imbalances of parties in charge with balancing and by the Rules on the organization and settlement of the balancing market, approved by Order of the ANRE President no. 31/31.01.2018, published in the Official Gazette of Romania issue 166bis/22.02.2018. The purpose of this market is to maintain the balance between production and consumption in real time, using resources offered in a competitive system.

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

High-efficiency cogeneration

Starting April 1st, 2011, CNTEE Transelectrica SA is the administrator of the support scheme for high-efficiency cogeneration. The purpose of this support scheme is to promote highly efficient systems cogenerating heat and power, with the advantage of a more environmentally friendly electricity production. It aims to provide easy access on the market for electricity produced in high-efficiency

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

cogeneration plants via a cogeneration bonus granted if the total electricity and heat production costs generated by such cogeneration plants exceed the market prices of the two types of energy. The support scheme targets electricity and heat producers owning or operating high-efficiency power plants, so as to encourage new investments in cogeneration, as well as the refurbishment of existing facilities. The support scheme was effectively enforced in Romania as of April 1st 2011, after the Romanian Energy Regulatory Authority (ANRE) adopted the regulating framework for the implementation of this scheme.

The support scheme for the promotion of high efficiency cogeneration is one of the mechanisms developed at the level of the European Union (EU) so that each member state could reach its greenhouse gas (GHG) emission reduction targets (by reducing the amount of primary electricity required to generate the same amounts of processed energy - electricity and heating - compared to separate production).

The bonus support scheme was established in Romania by GD no. 219/2007 on the promotion of cogeneration based on useful heating energy (transposition of EC Directive no. 8/2004) and implemented by GD no. 1215/2009 on the determination of criteria and conditions for the implementation of the support scheme to promote high efficiency cogeneration based on useful heating energy demand, for producers with an installed electrical capacity of more than 1 MW.

The support mechanism was authorized by the European Commission Decision C(2009)7085, amended by Decision C(2016)7522 final. Based on these decisions, state aid is of an operating type, to cover the difference between electricity production costs and revenues in high-efficiency cogeneration, ensuring a profitability of no more than 9%.

The bonus-type support scheme is thus aimed at supporting and promoting electrical and heating power production systems in high-efficiency cogeneration, so as to ensure new investments in cogeneration technology, as well as the performance of works for the replacement/refurbishment of existing installations.

The scheme applies to electrical and heating power producers in cogeneration who demanded ANRE for the bonus for electricity manufactured in high-efficiency cogeneration and delivered into the NPS, for the cogeneration capacities included in the list of high-efficiency cogeneration electricla and heating power manufacturers by December 31, 2016. The manufacturers benefit from the support scheme for no more than 11 consecutive years, without exceeding 2023, the year by whose end the scheme is terminated. The bonus, granted on demand, represents the amount (in RON) received by the manufacturers for each MWh produced in high-efficiency cogeneration and delivered into NPS networks, is established by ANRE on an annual basis and is calculated as a difference between the total manufacture costs of an equivalent cogeneration power plant, with high efficiency electricity production, and the revenues likely to be obtained by it using the market price of electricity and the unit cost of heating power resulted for an equivalent heat plant respectively. This difference is related to the electricity delivered to the NPS by the cogeneration plant.

Government Decision no. 1215/2009 establishes the legal framework according to the European Union regulations necessary for implementing the bonus support scheme for promoting high-efficiency cogeneration based on the demand for thermal energy, in order to cover the difference between high-efficiency cogeneration production costs and sale prices. ANRE approved the reference bonus values per megawatt an hour ("MWh") of electricity produced and delivered in the grid from high-efficiency cogeneration plants. The beneficiaries of the scheme are the producers that meet certain criteria established by ANRE.

According to provisions of Article 14 of Government Decision no. 1215/2009, CNTEE Transelectrica SA is designated as responsible for the administration of the support scheme. The main tasks of the Company as the administrator of the support scheme are: collecting the contribution from the suppliers of the electricity consumers in a bank account distinct from the core activity; paying the bonus to the high-efficiency cogeneration electricity and heat producers; concluding contracts with suppliers in order to collect the contribution and with producers that will be the beneficiaries of the scheme; verifying the value of the contribution collected; issuing invoices to suppliers; refunding the high-efficiency cogeneration contribution to the suppliers who import in Romania energy produced in high-efficiency cogeneration in other member states of the European Union; monitoring and reporting to ANRE the way of administration of the support scheme; paying the bonus to energy producers that are the beneficiaries of the scheme; paying late penalties to the producers for not paying the bonus on the due date.

The Company acts as an agent of the State in the monthly collection of the cogeneration contribution and the monthly payment of the bonus and under such circumstances, the operations associated to the

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

support scheme do not influence the income and expense accounts, except for the own administration costs recognized by ANRE to run the support scheme, which are self-invoiced.

On 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 effective heat demand. The main amendments refer to the following:

- to receive the bonus, producers are requested not to generate liabilities to the administrator of the support scheme or to conclude conventions for the settlement of liabilities and receivables;
- the over-compensation is recovered according to the national legislation and the legislation of the European Union in the field of State aid;
- the undue over-compensation/bonus remaining to be paid by producers, for which all the legal actions have been taken, will be recovered by including the amount in the cogeneration contribution, according to the methodology issued by ANRE;
- the ANRE decisions regarding the amount of the over-compensation and/or the undue bonus are mandatory for producers and are enforced for recovering the amount by issuing a decision by the scheme administrator in accordance with the legislation in the field of State aid;
- the financial closing of the support scheme is made in the first semester of 2024, according to the regulatory framework drawn up by ANRE.

Until the date of these stand-alone financial statements ANRE has not elaborated the regulatory framework for the scheme financial closure according to item 11 of HG 925/2016 amending and adding Governmental Decision 1.215/2009 establishing the criteria and conditions necessary to implement the support scheme to promote high efficiency cogeneration based on the demand of useful thermal power.

GD no. 129/2017 on the supplementation of art. 8 of Government Decision no. 1215/2009 stipulates that the cogeneration bonus for the current support scheme may be awarded for no more than 11 consecutive years, but no later than 2023.

GD no. 846/2018 amending and supplementing Government Decision no. 1215/2009 stipulates that reference bonuses and reference prices for heating power are adjusted on a semi-annual basis, and values approved for the following year are also applied in November-December of the current year (compared to the previous case, when reference bonuses were approved on an annual basis). Thus, starting 2019, the overcompensation analysis will be based on the orders on the approval of the values of reference bonuses for electricity manufactured in high-efficiency cogeneration and of the reference prices for heating and power produced in cogeneration; such orders are issued by ANRE for several periods (January-June, July-October, November-December).

Electricity markets price coupling mechanism

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

In terms of the internal regulatory framework,, the roles and responsibilities of the operators involved, i.e., CNTEE Transelectrica SA and SC OPCOM SA as well as the operations carried out within the market coupling processes are provided in the Regulation for the Organization and Operation of the Day-Ahead Electricity Market, approved by ANRE Order no. 82/2014 (the Regulation), by observing the price coupling mechanism of markets and amending certain legal acts that regulate the day-ahead electricity market.

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

Art. 138 of the Regulation provides that, during the post-coupling process, the transmission system operators (TSOs) act as shipping agents for the electricity resulted from the coupling algorithm as being shipped between two adjacent bidding zones

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

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

The Company acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs (MAVIR-Hungary) and manages the congestion income on 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.

In calitate de Agent de Transfer si de Participant Implicit, Compania are sarcina comerciala de a deconta energia tranzactionata intre SC OPCOM SA si MAVIR.

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

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

Congestion income is divided on a monthly basis between transmission system operators and foreign exchange differences are withheld or covered by TSOs, as the case may be.

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

2. BASES OF ELABORATION

The Compliance Statement

The stand-alone financial statements ("financial statements") were drafted according to the Order of the Ministry of Public Finances no. 2844/2016 approving the Accounting arrangements pursuant to the International Financial Reporting Standards with subsequent amendments and additions ("OMFP no. 2844/2016"). Within the meaning of Order no. 2844/2016, the International Financial Reporting Standards mean the standards adopted according to the procedure provided by Regulation (EC) no. 1.606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ("EU IFRS").

The Company applies the International Financial Reporting Standards as approved by the European Union upon the preparation of the stand-alone financial statements for 2018 in accordance with OMF no. 881/2012, as subsequently amended and supplemented.

Basis of assessment

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

Functional and presentation currency

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

Use of estimates and judgements

The preparation of consolidated financial statements in accordance with EU IFRS requires management to use professional judgment, estimates and assumptions that impact the application of accounting policies and the recognized value of assets, liabilities, income and expenses, assumptions regarding the fair value, commitments and contingencies, the recognition of non-refundable funds to be received, the

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

provision for impairment of receivables (see Note 8), the liabilities related to cash settled share-based payment transaction and the liabilities for defined benefit plans.

Actual results may differ from these estimates. Estimates and assumptions are revised periodically. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future impacted periods.

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

Note 11 – the Company's management estimate related to the existence of a reasonable assurance that the conditions regarding non-refundable funds will be fulfilled and the funds will be received;

Note 13 – assessment of liabilities for defined benefit plans;

Note 24 – recognition and assessment of provisions, commitments and contingencies; key assumptions regarding the probability and magnitude of an outflow of resources;

Note 25 – assessment of liabilities related to cash settled share-based payment transactions.

Information regarding the accounting policy rationale pertaining to the service concession agreements is presented in the following paragraphs.

In 2004, the Company (operator) concluded a service concession agreement with the Ministry of Economy (grantor) according to which the Company has the right to use public patrimony assets which mainly include the electricity transmission grid and the land on which it is located, in exchange for providing electricity transmission services (see Note 3 (b)). Taking into consideration that the majority of the Company's shares are held by the State, the Company's management considers it to be a public-sector company and therefore out of the scope of IFRIC 12 "Service Concession Arrangements". With no other specific international financial reporting standard pertaining to service concession agreements, the Company considered whether IFRIC 12 should nevertheless be applied, based on the hierarchy set out in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", which requires to first consider the requirements of other IFRSs dealing with similar issues.

In determining whether IFRIC 12 is applicable, the Company considered if the following features of a public-to-private service concession agreement are to be applied to the concession agreement concluded with the Ministry of Economy, as of the date on which IFRIC 12 is required to be adopted:

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

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

- the services provided by the Company are regulated by ANRE, therefore the Grantor – the relevant ministry – does not control or regulate the type of services that the Company must provide;
- at the end of the contractual period, the residual interest in infrastructure is approximately nil, and most of the goods belonging to the State public domain are completely depreciated;
- there are currently are no other similar contracts, the Company holds the monopoly in the electricity transmission sector.

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

3. POLITICI CONTABILE ACCOUNTING POLICIES

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

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

(a) Basis of consolidation

(i) Subsidiaries

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

On the date of this report The Company has five subsidiaries in its structure, Romanian legal entities, organised as joint stock companies, namely: Formenerg, OPCOM, Teletrans, Smart and Icemenerg Service (is at the date of the report in bankruptcy procedure).

Among the Company's subsidiaries, only Smart and Teletrans are included in the Group's financial consolidation perimeter. Formenerg and Icemenerg-Service have not been taken into consideration for the consolidation because according to the applicable accounting legislation, the impact of their activities is considered as being insignificant for the purpose of the consolidation, while OPCOM is subject to ANRE regulations and holds an independent position on the energy market, and therefore Transelectrica does not have control over it.

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

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

b) Tangible assets

Owned assets

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

Recognition

Property, plant and equipment are initially valued at cost.

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

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

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

- capitalized loan costs.

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

Value adjustments for unused or used tangible assets are recorded in the consolidated financial statements when these items are identified.

Subsequent expenditure

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

Depreciation

Property, plant and equipment items are depreciated using the linear method over their useful lifetimes, as follows:

	<u>Normal duration of operation</u>
Buildings and special facilities	40 – 60
Plant and equipment	15 – 40
Metering and control devices	7 – 12
Vehicles	5 – 8
Other tangible fixed assets	3 – 5

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

Reassessment

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

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

(a) Public assets

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

Government Decision no. 627/2000 establishes in Annex no. 8 the State public patrimony fixed assets which are under the Company's administration since August 1st, 2000, and which are subject to inventory count and are updated whenever necessary, through a legal act (GD).

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

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

Following the execution of the concession agreement with the Ministry of Economy on behalf of the Romanian State, on June 29th, 2004, the nature of the relationship between the Ministry and the Company changed and

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

thus the Company derecognized public patrimony assets, including the public patrimony reserve included in equity. Subsequent to the conclusion of the concession agreement, the Company accounts as operating lease the assets over which it has been granted a right of use. The payments for the concession agreement (royalty) are accounted for by the Company as expenses in the profit or loss account during the year.

Concession agreement no. 1/2004 was published in the Official Gazette of Romania no. 298 bis of April 30th, 2015.

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

Taking into account the provisions of Government Decision no. 1009/2012 and of Government Decision no. 984/2012, approving the amendment of Appendix no. 7 to Government Decision no. 1705/2006 approving the centralized inventory of the goods in the public patrimony that were transferred to the Company under concession, and following the inventory procedure of the assets under public patrimony in 2012 and the revaluation/valuation of these goods, on 14.02.2013, Addendum no. 7 to Concession agreement no. 1/29.06.2004 was signed with the Ministry of Economy.

Government Decision no. 1032 from December 11th, 2013, published in the Official Journal no. 22 from January 13th, 2014, approved the amendment and supplementing of Appendix no. 7 to Government Decision no. 1705/2006 approving the centralized inventory of the assets under public patrimony, following the 2012 inventory of the assets under public patrimony.

The main terms of the concession contract are as follows:

- The Ministry of Economy has legal ownership over the assets within the scope of the agreement;
- The Company has the right of use over these assets for a period of 49 years from June 1st, 2004 until May 31st, 2053;
- The annual fee paid by the Company in the form of royalty for use of the assets is set by the Ministry of Economy and represents 1/1000 of the total revenue gained from the electricity transmission services, based on the actual capacity transmitted;
- The assets will be returned to the Ministry of Economy upon termination or expiration of the agreement; the contract can be unilaterally terminated by either party;
- The Company has the obligation to use the assets according to the provisions of the concession agreement and pursuant to the operating license.

The amount that the Company paid under the concession agreement for the period January 1st – December 31st, 2014 is significantly lower than the amount of the depreciation that the Company would have recorded for such assets had the concession agreement not been concluded. However, the Company has not recorded into the financial statements any amount related to this potential benefit, as the Company is unable to determine the amount that a third party would pay for the use of the assets in an arm's length transaction.

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

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

(b) Intangible assets

The intangible assets purchased by the Company are stated at cost less any accumulated depreciation and accumulated impairment losses. The depreciation is recognized in the profit and loss account based on the straight-line method over the estimated useful life of the intangible asset. Most intangible assets recorded by the Company consist of intangibles in progress and customized software. These are depreciated on a linear basis over 3 years.

Asset depreciation methods and useful lives are revised and adjusted, if necessary, at the end of each reporting period.

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

Subsequent expenditure

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

(c) Foreign currency transactions

Monetary assets and liabilities expressed in foreign currencies at the end of the period are converted to LEI at the exchange rates applicable on that date. Exchange gains and losses, realized or unrealized, are included in the profit and loss account for that year. Any gains and losses from exchange rate differences shall be recorded in the profit and loss statement for such year. The exchange rates at December 31, 2018 and December 31, 2017 are as follows:

Moneda	December 31, 2018	December 31, 2017
1 EUR	4,6639	4,6597
1 USD	4,0736	3,8957

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

(e) Receivables

Trade receivables are initially recognized at fair value and subsequently assessed using the effective interest method, less the value losses. A value loss is established when there is clear evidence that the Company will not be able to collect all amounts due within the agreed deadline. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization and late payments (over 180 days) are considered indications that these trade receivables might be impaired.

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

(f) Inventories

Inventories consist of:

- raw materials, materials, spare parts that do not meet the definition of PPE and other consumables that are to be used during the performance of the basic activity of the Company;
- security and intervention stock needed for fast repairs of the failures occurred in the PTG installations in order to assure the safe functioning of the NPS. These materials are recorded as inventories when purchased and then expensed when consumed or capitalized, as the case may be.

Inventories are assessed at the lowest value between the cost and net realizable value. The cost of inventories consumed is determined based on the FIFO method and includes expenditures with acquisition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, if any, and selling expenses.

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

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, in current accounts and bank deposits with original maturities of 3 months or less that are subject to an insignificant risk of change in fair value.

(h) Revaluation reserves

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

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

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

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

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

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

The Company registered deferred tax for the liability pertaining to the reserves from the revaluation of fixed assets, including land plots, recorded after January 1st, 2004.

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

The Company did not register deferred tax for the liability pertaining to the reserves from the revaluation of fixed assets, including land plots, recorded until December 31st, 2003.

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

(i) Impairment of non-financial assets

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

The recoverable amount of an asset or cash generating unit is the greater value between the value of use and the fair value less selling costs. In assessing the value of use, the estimated future cash flows are updated in order to determine the presented value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continued and use that are largely independent of the cash inflows of other assets or groups of assets ("cash generating unit").

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

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in “thousand LEI”, unless stated otherwise)

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

(j) Registered capital

Ordinary shares are classified as part of equity. Incremental costs directly attributable to the issue of new shares and shares options are recognized as a deduction in equity at the value net from tax effects.

(k) Dividends

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

(l) Trade payables and other payables

Trade accounts payables and other payables are recorded at depreciated cost and include the value of invoices issued by suppliers of goods, executed works and provided services.

(m) Interest-bearing loans

Interest-bearing loans are initially recognized at fair value net of attributable transaction costs. Subsequent to the initial recognition, interest-bearing loans are recorded at depreciated cost with any difference between cost and redemption value being recognized in the profit and loss account over the period of the loan based on the effective interest rate.

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

Non-derivative financial assets

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

The Company derecognizes a financial asset upon the expiry of the contractual rights on the cash flows generated by the asset, or upon the transfer of the rights to collect the contractual cash flows generated by the financial asset in a transaction in which all the risks and rewards associated with the ownership of the financial asset are significantly transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

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

Non-derivative financial assets (continued)

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

Non-derivative financial liabilities

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

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs.

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans, trade and other payables.

(o) Corporate income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the profit or loss account except for the extent that it relates to a business combination or items directly recognized in equity or in other elements of comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the fiscal profit or loss for the current year, using tax rates enacted or substantively enacted at the reporting date, as well as any adjustment to income tax payable in respect of previous years. Current income tax also includes any tax liability arising from declared dividends.

(ii) Deferred tax

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

Deferred tax is not recognized for:

- temporary differences that occur at the initial recognition of assets and liabilities in a transaction that is not a business combination and that impact neither accounting nor fiscal profit or loss;
- temporary differences related to investments in subsidiaries or jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future; and
- temporary differences occurring at the initial recognition of goodwill.

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

Deferred tax is calculated based on the tax rates that are expected to be applied to temporary differences at the moment of their reversal, pursuant to the enacted legislation or substantively enacted at the reporting date.

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

A deferred tax asset is recognized for unused fiscal losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profits are possible to be used for covering the fiscal loss. Deferred tax assets are reviewed on each reporting date and are reduced to the extent that it is no longer probable that the related fiscal benefit will be realized.

(iii) Income tax exposure

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

(p) Employee benefits**Other long-term employee benefits**

The Company's net obligation in respect of long-term employee benefits, other than pension plans, is the value of future benefits that employees have earned in return for their service in the current and prior periods. Such benefit is updated to determine its fair value, and the fair value of any related asset is deducted. Such benefits are estimated using the projected unit credit method. Any actuarial gains or losses are recognized in other elements of the comprehensive income in the period in which they arise. Other long-term employee benefits are represented by anniversary premiums.

Cash settled share-based payment transactions

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

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

Short-term employee benefits

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

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

(q) Revenues

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

The Romanian State, via ANRE, regulates the prices charged by the Company for electricity transmission system operator services. The Romanian State has a number of roles to fulfil, apart from being the majority shareholder, and might thus have broader goals and objectives than an investor, whose main concern is return on investment.

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

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

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

- fulfils the role of implicit participant on the DAM and acts as shipping agent;

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in “thousand LEI”, unless stated otherwise)

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

Connection fees

IFRIC 18 “Transfers of Assets from Customers” applies to contracts with customers in which the Company receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant or equipment and the Company must then use the item of property, plant or equipment to connect customers to the network.

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

The connection tariff is a regulated fee which represents the expense incurred by a network operator to perform the works for connecting a demand and/or production facility of a user to the power grid.

If the connection of a customer to the power transmission grid does not represent a separate component of the connection contract, then the connection tariffs are recognized in the profit and loss account on a systematic basis throughout the useful life of the asset.

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

(r) Net financing costs

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

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

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

3. ACCOUNTING POLICIES (continued)

(s) Subsidies

Subsidies pertaining to assets are initially recognized as “deferred income” at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the subsidies, and then the subsidies shall be recognized in the profit and loss account as other operating revenues over the useful life of the asset. Non-refundable funds are recognized as assets when there is reasonable assurance that they will be received and the conditions corresponding will be met.

(t) Provisions

A provision is recognized when, and only when the following conditions are met: the Company has a current obligation (legal or implicit) as a result of a past event; it is probable (i.e. more likely than not) that an outflow of resources representing economic benefits will be required to settle the obligation; a reliable estimate for the value of the obligation can be made. Where the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

(u) Result per share

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

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

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

(u) Contingencies

Contingent liabilities are not recognized in the accompanying financial statements. They are disclosed only when an outflow of resources embodying economic benefits is possible, but not probable.

A contingent asset is not recognized in the accompanying financial statements, but disclosed when an inflow of economic benefits is probable.

(w) Operating segments

An operating segment is a component of an entity:

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

The Company's activities are taking place in different parts of Romania with each location being involved in both transmission and dispatch activities. The Company's management considers all activities together, as "a single segment".

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments.

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

The following new standards and amendments of existing standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) *have not been enforced yet* for the annual financial reporting ended on 31 December 2018 and have not been applied in the execution of these financial statements:

Norm/Interpretation	Kind of imminent amendment of accounting policy	Possible impact on the financial statements
Amendments to IFRS 16 "Leasing contracts" (in force for annual periods beginning on or	Amendments to IFRS 16 aim at improving the financial reporting with respect to leasing contracts.	The impact of applying these standards for the first time is under evaluation.

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

<i>after 1 January 2019)</i>		
Amendments to IFRS 9 “Financial instruments” <i>(in force for annual periods beginning on or after 1 January 2019)</i>	Amendments are meant to clear up the classification of certain financial assets with advance payment when IFRS 9 is applied.	The impact of applying these standards for the first time is under evaluation.
IFRIC 23 “Uncertainty related to fiscal treatments” <i>(in force for annual periods beginning on or after 1 January 2019)</i>	IFRIC 23 specifies the manner in which uncertainty should be mirrored in the accounting of income tax.	The impact of applying IFRIC 23 for the first time is under evaluation.
Amendments to IAS 28 “Investments to associated entities and partnership associations” <i>(in force for annual periods beginning on or after 1 January 2019)</i>	The purpose of amendments to IAS 28 is to clear up the issue of depreciation requirements from the International Financial Reporting Standard (IFRS) 9 <i>Financial instruments</i> that are applied to long-term investments into associated entities and partnership associations.	Estimations are that adopting such amendments will not impact financial statements. Standard IAS 28 is not applicable on the elaboration date of these financial statements.

The following new standards and amendments of existing standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) *have come in force in the current period:*

Norm/Interpretation	Kind of imminent amendment of accounting policy	Impact on the financial statements
IFRS 15 Revenues from clients’ contracts <i>(in force for annual periods beginning on or after 1 January 2018)</i>	IFRS 15 establishes a general framework to be applied into the recognition of revenues obtained from a contract concluded with a client (with few exceptions), regardless of the transaction type or the industry; The standard establishes five steps to be made to recognise revenues: identifying the contract (contracts) with a client, identifying execution contracts under a contract, determining the transaction price, allocating the transaction price for execution obligations and recognizing revenues when (or during the time when) the entity carries out an execution obligation; The standard requirements are also applied to the recognition and evaluation of gains and losses from the sale of certain non-monetary assets anumitor that are not the usual result of the entity’s activities (e.g. sale of tangible and intangible assets); Extended presentation of information is provided, including disaggregation of total revenue, information about execution obligations, changes in contractual balances of asset and liability accounts in-between periods, reasonings and key estimates;	Adoptarea IFRS 15 nu a avut impact asupra situațiilor financiare individuale ale anului 2018.
Amendments to IFRS 15 Revenues from clients’ contracts – Explanations to IFRS 15 Revenues from clients’ contracts <i>(in force for annual periods beginning on or after 1 January 2018)</i>	Amendments to IFRS 15 aim at clearing up the requirements of standard IFRS 15 Revenues from clients’ contracts, especially the accounting identifying the execution obligations, amending the phrasing of the asset principle “distinctly identifiable”, the considerations regardubg the agent and principal, including valuation for an entity’s action as principal, and the application of the control and licensing principle, providing additional guidance about accounting the intellectual property and royalties. Such explanations provide additional practical solutions available for entities, which either apply IFRS 15 fully retrospective or choose applying the amended retrospective approach;	Adopting the amendments to IFRS 15 had no impact on the stand-alone financial statements of 2018.

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

IFRS 9 Financial instruments – classification and valuation <i>(in force for annual periods beginning on or after 1 January 2018)</i>	IFRS 9 is the standard replacing IAS 39 Financial instruments: Recognition and valuation; The standard introduces new requirements regarding classification, assessment, depreciation and accounting coverage for risks;	Adopting IFRS 9 had no impact on the financial statements.
Amendments to IFRS 4 “Insurance Contracts” – Applying IFRS 9 Financiare Instruments with IFRS 4 Insurance Contracts <i>(in force for annual periods beginning on or after 1 January 2018)</i>	Amendments to IFRS 4 provide entities having insurance activities as main business with the possibility to postpone until 1 January 2021 the enforcement date of IFRS 9. Also the amendments to IFRS 4 enable entities issuing insurance contracts to keep out of profit & loss a part of additional accounting inconsistencies and of temporary volatility that might occur when IFRS 9 is applied before IFRS 17 (new standard for insurance contracts, which replaces IFRS 4)	Adopting such amendments to IFRS 4 had no impact on financial statements since this standard is not applicable on the elaboration date of these financial statements.
Amendments to IFRS 2 “Share-based payment” <i>(in force for annual periods beginning on or after 1 January 2018)</i>	Amendments to IFRS 2 aim at clearing up the manner in which companies should apply the standard in certain specific cases.	Adopting such amendments to IFRS 2 had no impact on the financial statements.
Amendments to various standards „Improvements of IFRS (“2014-2016 cycle” resulting from the annual improvement project of IFRS (IFRS 1 “Adopting the International financial reporting standards for the first time” and IAS 28 “Investments to associated entities and partnership associations” <i>(in force for annual periods beginning on or after 1 January 2018)</i>	The purpose of such amendments is to eliminate inconsistencies and clear up certain phrasing.	Adopting such amendments had no impact on the financial statements.
Amendments to IAS 40 “Real estate investments” <i>(in force for annual periods beginning on or after 1 January 2018)</i>	The purpose of such amendments is to clear up the reclassification of real estate property when its use is changed.	Adopting such amendments to IAS 40 had no impact on the financial statements.
IFRIC 22 “Transactions in hard currency and counterprovisions in advance” <i>(in force for annual periods beginning on or after 1 January 2018)</i>	Interpretation provides explanations on the accounting of transactions that include receipt or advance payment of counterprovision in hard currency.	Adopting IFRIC 22 had no impact on the financial statements

The Company estimates the adoption of such standards and amendments to existing standards will have no significant impact on the Company’s financial statements during the initial application period.

4. DETERMINATION OF FAIR VALUE

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

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

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

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

(i) *Tangible assets*

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

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

5. TANGIBLE ASSETS

The development of property, plant and equipment between January 1st, 2018 and December 31st, 2018 are as follows:

	Land and land planning	Buildings and special installations	Plant and equipment	Metering and control devices	Vehicles	Other tangible fixed assets	Tangible assets in progress	Total
COST								
Balance on 01 January 2018	54.956	1.407.976	3.155.579	495.751	63.488	287.088	441.809	5.906.647
Inflows	-	(1.062)	1.085	421	497	5	144.911	145.857
Increase / decrease of revaluation reserve	-	118.150	-	-	-	-	-	118.150
Transfers from tangible assets in progress	54	126.364	89.325	20.917	2.752	4.398	(243.577)	233
Reclass between assets accounts	-	-	-	-	-	-	(712)	(712)
Outflows	-	(396)	(17.181,05)	(602)	(1.573)	(1.299)	(1.739)	(22.789)
Impact of revaluation	-	(271.685)	-	-	-	-	-	(271.685)
Balance on 31 December 2018	55.010	1.379.348	3.228.809	516.486	65.164	290.193	340.692	5.875.701
Balance on 01 January 2017	55.015	1.370.623	3.063.346	459.864	60.740	272.489	490.830	5.772.906
Inflows	-	10	3	-	-	17	156.323	156.352
Transfers from tangible assets in progress	-	37.621	107.321	36.796	3.360	16.844	(201.941)	-
Reclass between assets accounts	-	-	-	-	-	-	(2.182)	(2.182)
Outflows	(59)	(277)	(15.092)	(909)	(612)	(2.261)	(1.221)	(20.431)
Balance on 31 December 2017	54.956	1.407.976	3.155.579	495.751	63.488	287.088	441.809	5.906.646
Accumulated depreciation								
Balance on 01 January 2018	138	184.052	1.961.078	387.606	45.373	209.076	-	2.787.323
Depreciation expense	-	90.336	157.743	24.950	4.732	27.694	-	305.455
Accumulated depreciation of outflows	-	-	(5.535)	(603)	(1.483)	(1.299)	-	(8.919)
Impact of revaluation	-	(271.746)	-	-	-	-	-	(271.746)
Balance on 01 January 2018	138	2.641	2.113.286	411.954	48.622	235.471	-	

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

	Land and land planning	Buildings and special installations	Plant and equipment	Metering and control devices	Vehicles	Other tangible fixed assets	Tangible assets in progress	Total
								2.812.113
Balance on 01 January 2017	138	92.428	1.822.827	347.874	42.238	181.310	0	2.486.815
Depreciation expense	-	91.642	152.844	40.628	3.740	29.935	-	318.789
Accumulated depreciation of outflows	-	(18)	(14.593)	(896)	(604)	(2.169)	-	(18.281)
Impact of revaluation	-	-	-	-	-	-	-	-
Balance on 31 December 2017	138	184.052	1.961.078	387.606	45.373	209.076	0	2.787.323
DEPRECIATION ADJUSTMENTS								
Balance on 01 January 2018	-	14.436	-	-	(113)	-	19.238	33.561
Expenditures with impairment adjustments	-	(14.436)	-	-	113	-	1.005	(13.318)
Balance on 31 December 2018	-	-	-	-	-	-	20.243	20.243
Balance on 01 January 2017	0	14.068	0	0	0	0	17.678	31.746
Expenditures with impairment adjustments	0	368	0	0	(113)	0	1.560	1.815
Balance on 31 December 2017	0	14.436	0	0	(113)	0	19.238	33.561
Net accounting value								
Balance on 31 December 2018	54.872	1.376.706	1.115.522	104.533	16.542	54.721	320.449	3.043.346
Balance on 31 December 2017	54.818	1.209.489	1.194.501	108.145	18.228	78.011	422.570	3.085.762

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

The total net value of tangible assets decreased on December 31st, 2018 compared to December 31st, 2017 due to the corresponding depreciation of 2018, which was registered against the background of increased amounts of tangible assets in progress.

In 2018, the value of tangible assets in progress is mainly represented by investment works in the high voltage electricity substations and lines, as follows:

- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 22,221,050;
- Technical update of the Turnu Severin Est 220/110 kV substation - 20,096,234;
- Replacement of EMS SCADA AREVA system components - software component, hardware component – 11,444,853;
- Technical upgrade of the 400/110/20 kV Station of Domnesti (H.CA no. 5/19.05.2010) - 8,461,629;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - 400 kV OHL s.c.Portile de fier - (Anina) – Resita – 7,523,467;
- Upgrading the Suceava 110 kV and 20 kV substation – 7,521,124;
- Refurbishing the 400/220/110/20 kV substation Bradu – 6,853,528;
- Upgrading the command-control-protection system of the 220/110/20 kV substation Sardanesti - 5,575,987;
- 400 kV interconnection OHL Resita (Romania) - Panchevo (Serbia) – 5,333,480;
- Refurbishing the 220 kV substation Otelarie Hunedoara - 5,078,172;
- Replacing the 200 MVA, 231/121/10.5 AT 2 from the 220/110 kV substation Resita - 4,565,860;
- Connecting substations Turnu Magurele, Mostistea, Stalpu, Teleajen to the optical fibre network of CNTEE Transelectrica SA, lot 2 - 4,274,429;
- Replacing the connectors from electrical substations – 4,054,953.
- Equipment for videowall type display for the control rooms of the dispatching CPD/TPD centres – 3,621,369;
- Upgrading the 220/110 kV substation Dumbrava – 3,249,790;
- Motor vehicles 2018– 2,744,175;
- Technical upgrade of the Hasdat 220/110 kV substation – 2,705,124;
- Regulating the coexistence of the 400 kV OHL Mintia - Arad, in segment 15-20, with the Lugoj – Deva motorway, lot 4 - 2,699,235;
- Upgrading the 110kV substations Bacau Sud and Roman Nord of the 400kV axis Moldova - 2,620,579.
- 400 kV double circuit OHL Cernavoda-Stalpu and connection in Gura Ialomitei - 2,489,984;
- Equipping the 110 kV bay Nord and changing the elements of the 110 kV bay Obor 2 from the 220/110/10 kV substation Fundeni - 2,482,875;
- Connecting the consumption point Fabrica MDF, located in Arges, small town Oarja, village Ceausesti, point Armata, fields 5 & 46, to the 110 kV bus-bar of the 220/110/20 kV substation Pitesti Sud by means of the 110 kV LES (underground line) about 450 m long - 1,833,141;
- Upgrade of the tele-protection and telecommunications system in the Cernavodă substation - 1,605,942;
- Regulating the proximity of the 400 kV OHL Mintia - Arad, in segment 35-37, with the Lugoj – Deva motorway, lot 4 - 1,503,818;
- Integrated security system in electric substations, stage IV – 1,349,341;
- Refurbishing the 400/110/20 kV substation Smardan – 1,010,448;
- Refurbishing the 220/110/20 kV substation Ungheni – 909,326;
- Upgrading the hardware & software platforms of the SCADA system from substation Slatina - 782,672;
- Relocating the high voltage 220 kV networks, highway Sebes – Turda, Lot 1, km 0+000 – km17+000, section A –220 kV double circuit (d.c.) OHL Alba Iulia-Şugag, Gâlceag, km 7+800, in the 25 – 26 opening and km 11+080 – milestone 15 – 737,968;
- Relocating the high voltage 220 kV networks, highway Sebes – Turda, Lot 1, km 0+000 – km17+000, section A km 0+000 – 14+000: – 220 kV simple circuit (s.c.)OHL Cluj Floresti-Alba Iulia, km 13+185, in the 300 – 301 clearing – 424,235.
- Technology research and development centre for working with live equipment (LST) and rapid intervention in the NPS – centre building – 1,560,892;
- Relocating the HV networks of the Brasov - Targu Mures - Cluj – Oradea Highway, section 2A Ogra-Campia Turzii, lot 2 Iernut - Chetani, km 3 + 600 km 21 + 500 - 400 kV OHL Iernut - Sibiu Sud, - RON 996,160;
- Refurbishing the 220/110 kV substation Craiova Nord – 854,060;
- Relocating the high voltage networks, Brasov – Targu Mures – Cluj – Oradea motorway, section 2A Ogra – Campia Turzii, lot 2 Iernut – Chetani, km 3+600 – km 21+500 – the 220 kV OHL Iernut – Ungheni circuit 2 - 693,134;

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

- Specific furniture for dispatchers in DET [Territorial Dispatcher Bacau, DET Cluj, DET Craiova and DET Timisoara – 617,858;
- Upgrading the 110 kV & 400 (220 kV) installations from Substation Focsani Vest – 567,052;
- Upgrading the Raureni 220/110/20 kV station - 534,816.

In 2018, the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the startup of the investment objectives, as follows:

- 400 kV interconnection OHL Resita (Romania) - Panchevo (Serbia) – 98,590,976;
- Refurbishing the 400/220/110/20 kV substation Bradu – 31,418,231;
- Upgrading the 110 kV & 20 kV substations Suceava - 16,650,633;
- Upgrading the 400/110/10 kV substation Cluj Est - 13,397,886;
- Replacing autotransformers and transformers of electric substations, stage 2 - 11,589,719;
- Upgrading the command-control-protection system of the 220/110/20 kV substation Sardanesti - 11,044,995;
- Connecting substations Turnu Magurele, Mostistea, Stalpu, Teleajen to the optical fibre network of CNTEE Transelectrica SA, lot 2 - 4,512,429;
- Reparation of the failure of the 110-120 terminals of the Bucharest Sud - Ghizdaru 220 kV OHL - 4,274,773;
- Replacing the 200 MVA 231/121/10.5 AT 2 from the 220/110 kV substation Resita - 4,254,252;
- Replacing the connectors from electrical substations – 4,235,487.
- Equipment for videowall type display for the control rooms of the dispatching CPD/TPD centres – 3,692,883;
- Integrated security system in electric substations, stage IV – 3,637,057;
- Refurbishing the 400/110/20 kV substation Tulcea Vest – construction part – 2,861,232;
- 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.Urechesti-Rovinari - 2,849,279;
- Purchase Motor vehicles 2018– 2,744,175;
- Regulating the coexistence of the 400 kV OHL Mintia - Arad, in segment 15-20, with the Lugoj – Deva motorway, lot 4 - 2,699,235;
- Equipping the 110 kV bay Nord and changing the elements of the 110 kV bay Obor 2 from the 220/110/10 kV substation Fundeni - 2,482,875;
- Installing optical fibre to the 220 kV OHL Fundeni-Brazi Vest, lot 1 - 2,396,915;
- Upgrading the 220/110 kV substation Dumbrava – 2,152,158;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,835,204;
- Connecting the consumption point Fabrica MDF, located in Arges, small town Oarja, village Ceausesti, point Armata, fields 5 & 46, to the 110 kV bus-bar of the 220/110/20 kV substation Pitesti Sud by means of the 110 kV LES (underground line) about 450 m long - 1,834,274;
- Upgrading the hardware platforms of the SCADA system from substation Slatina - 1,796,946;
- Regulating the proximity of the 400 kV OHL Mintia - Arad, in segment 35-37, with the Lugoj – Deva motorway, lot 4 - 1,503,818;
- Computation technique - hardware & software - Laptops – 1,388,018;
- Relocating the high voltage 220 kV networks, highway Sebes – Turda, Lot 1, km 0+000 – km17+000, section A –double circuit (d.c.)Alba Iulia-Şugag 220 kV OHL d.c., Gâlceag, km 7+800, in the 25 – 26 opening and km 11+080 – milestone 15 – 737,968;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Portile de fier - (Anina) – Resita 400 kV OHL s.c.– 701,108;
- Relocating the high voltage networks, Brasov – Targu Mures – Cluj – Oradea motorway, section 2A Ogra – Campia Turzii, lot 2 Iernut – Chetani, km 3+600 – km 21+500 – the 220 kV OHL Iernut – Ungheni circuit 2 - 693,134;
- Regulating the coexistence of the 400 kV OHL Mintia - Sibiu, in the 6-8 clearing, and the highway Lugoj - Deva, Lot 4, sector Ilia - Deva km 77+361 - km 99+500 – 643,849;
- Replacing the accumulator batteries 1, 2, 3 & 4 from substation Portile de Fier - 633,007;
- Specific furniture for dispatchers in DET [Territorial Dispatcher Bacau, DET Cluj, DET Craiova and DET Timisoara – 617,858;
- Upgrading the personnel building of Iaz - 478.202;
- Replacing the accumulator batteries 1, 2, 3 & 4 from substation Portile de Fier - 424.235.

The balance of tangible assets in progress on 31 December 2018 is represented by ongoing projects, the most significant being provided below:

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

- PTG connection of the Ivești 300 MW WPP, Fălciu 1 88 MW WPP and Fălciu 2 18 MW WPP via the new Banca (400)/220/110 kV substation – 46,884,983;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Resita 400/220/110 kV station – 27,469,452;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 23,464,165;
- Technical update of the Turnu Severin Est 220/110 kV substation - 20,794,689;
- Extending the services providing business continuity and recovery after disasters – 14,413,918;
- Refurbishing the 400/220/110/20 kV substation Bradu – 12,229,155;
- Replacement of EMS SCADA AREVA system components - software component, hardware component – 11,444,853;
- 400 kV double circuit OHL Cernavoda-Stalpu and connection in Gura Ialomitei - 10,852,986;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja in the Medgidia Sud 400 kV substation – 10,752,585;
- Refurbishing the 400/110/20 kV substation Domnesti - 8,811,382;
- Integrated security system in electric substations, stage IV – 8,020,407;
- Technical upgrade of the Hasdat 220/110 kV substation – 7,102,316;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Resita 400/220/110 kV station – 6,627,560
- Gadalin - Suceava 400 kV OHL, including the NPS interconnection – 5,969,690;
- 400 kV HVDC link (Romania - Turkey submarine cable) - 5,853,759;
- Refurbishing the 220 kV substation Otelarie Hunedoara - 5,133,513;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 4,400,349;
- Gutinas – Smardan 400 kV OHL d.c. - 3,743,106;
- Upgrading the Raureni 220/110/20 kV station - 3,288,430;
- Extending the control system with new functions and IT registration of access in the objectives of CNTEE Transelectrica SA - 3,200,918;
- Converting of the Portile de fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage II - Resita - Timisoara – Sacalaz 400 kV OHL d.c.(Timisoara 220/110 kV substation) - 3,224,141;
- Upgrading the Arefu 220/110/20 kV station - 2,965,644;
- Connecting the 136 MW WPP Platonești, Ialomița county, to the PTG through constructing a 110 kV cell in the Gura Ialomiței 400/110 kV substation – 2,889,337;
- Integrated security system to electric substations, stage III - 2,781,635;
- Upgrading the 110kV substations Bacau Sud and Roman Nord of the 400kV axis Moldova - 2,616,383.
- Connecting to PTG the 99 MW WPP Dumesti and the 30 MW WPP Romanesti, Iasi County, by building a 110 kV line bay in the 220/110 kV substation FAI - 2,545,853;
- Technology research and development centre for working with live equipment (LST) and rapid intervention in the NPS – centre building – 2,210,673;
- Security solution to implement security measures for classified information - 2,024,289;
- Executive - DCBPA/CPA:Consolidation, upgrade and extension of CNTEE Transelectrica offices - 1,627,393;
- Upgrade of the tele-protection and telecommunications system in the Cernavodă substation - 1,383,331
- Integrated security system at the new Banca (400/220/110 kV substation – 1,133,202;
- Deploying an optical fiber line between the Pitesti Sud 110 kV substation and the remote control and installation supervision center of the Pitesti ST – 1,110,032;
- Upgrading the 220/110 kV substation Dumbrava – 1,037,693;
- Refurbishing the 400/110/20 kV substation Smardan – 1,010,448;
- Relocating the HV networks of the Brasov - Targu Mures - Cluj – Oradea Highway, section 2A Ogra-Campia Turzii, lot 2 Iernut - Chetani, km 3 + 600 km 21 + 500 - 400 kV OHL Iernut - Sibiu Sud, - 996,160;
- Refurbishing the 220/110/20 kV substation Ungheni – 909,326;
- Connecting to PTG the 400 kV substation Stupina and connecting the 400 kV OHL Isaccea-Varna - 874,015;
- Refurbishing the 220/110 kV substation Craiova Nord – 854,060;
- The 220 kV double circuit OHL Ostrovu Mare - PTG – 789,734;
- The 400 kV OHL Oradea – Beckescsaba – 788,626;
- Upgrading the 110 kV & 400 (220 kV) installations from Substation Focsani -766,273;
- The 400 kV substation Stalpu - 756,389;

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

- 400 kV d.c. (1 c.e.) Constanta Nord-Medgidia Sud OHL - 718,432;
- Converting the Brazi Vest - Teleajen - Stalpu 220 kV OHL to 400 kV, including the purchase of the 400MVA 400/220/20 kV AT, extension works for the 400 kV and corresponding 220 kV stations, in the Brazi Vest 400/220/110kV station – 683,000;
- Connecting to PTG the 33 MW WPP Sarichioi, Tulcea County, into the 110 kV bay Zebil from the 400/110 kV substation Tulcea Vest – 632,769.

According to the provisions of Art. 46 of ANRE Order no. 59/2013 approving the Regulation on the consumers' connection to the public power grids, the receipt of the installations resulting from the works performed to build and commission the connection facilities is performed in accordance with the applicable legislation.

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

- Connection to the PTG of the Bogdanesti 56 MW WPP, Deleni 112.5 MW WPP, Viisoara Nord 1 20.8 MW WPP, Viisoara Nord 1 52.8 MW WPP, Viisoara Sud 47.5 MW WPP, in the area of certain localities in Vaslui county, via the new Banca 400/220/110 kV electrical substation – the work is completed, there is minutes upon completion of works no. 34759/14.11.2013; the contract is in force until 31.12.2022; total value of ongoing investment – 48,018,186;
- Connection to the PTG of the Dumesti 99 MW WPP and Romanesti 30 MW WPP, in the area of Dumesti and Romanesti localities, Iasi county, through a 110 kV line cell in the 220/110 kV FAI substation, Iasi county, in amount of 2,545,853 lei, minutes upon completion of works no. 14584/29.04.2014 is concluded in connection with the investment and the contract is in force until 31.12.2018;

Tangible assets, except for "Buildings and special installations", were not revalued in 2018 and 2017. The management concluded that:

- market prices did not change significantly as compared to 2012, when the Company performed the last revaluation, and
- there is no indication of impairment of the assets held by the Company both from internal and external sources.

Land plots have been revalued on December 31st, 2011, based on the market approach. Also, the "Other tangible assets" group was revalued on December 31st, 2011.

Special installations, tools and equipment, metering and control devices and vehicles were revalued on December 31st, 2015 by SC JPA Audit & Consultanta SRL, an independent evaluator authorized by the National Union of Authorized Evaluators in Romania ("ANEVAR"). These fixed assets were mainly revalued using the cost-based method. In the cost-based method, the gross replacement cost was established using the indirect method. The cost-based method was used for reasons related to the specificity of assets where not enough market information was provided and/or an active market did not exist.

Buildings and special installations were revalued on December 31st, 2018 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania, for the Company and also for the subsidiars Smart and Teletrans.

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

- fixed assets classified in Group 1 - "Constructions" represented by constructions " registered in the Company's accounting records as of 31st December 2018, fully depreciated, proposed for disposal;
- own sources used for the financing of the public domain assets registered in the Company's accounting records as of December 31st, 2018, fully depreciated, proposed to be included in the inventory of the public state domain;
- own sources (structural funds and the connection fee) used for the financing of goods belonging to the public state domain, included in the Company's accounting records on December 31, 2018, proposed to be included in the inventory of the public domain and for which no depreciation was calculated.

Buildings and special installations are included in financial statements at their net value. The Company changed the method to record revaluation on December 31, 2015, moving from the gross to the net method to show a clearer, more concise and more relevant picture to the users of financial statements, with no influence of artificial distortions of gross accounting value and depreciation.

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

The Teletrans subsidiary reevaluated its fixed assets and land on 31.12.2017 with JPA Audit & Consultanta SRL, an independent evaluator authorized by the National Union of Authorized Valuers in Romania ("ANEVAR"). Smart reevaluated Group 1 - Construction on 31.12.2016.

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

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

As of December 31, 2018 and December 31, 2017 the Group has no pledged/mortgaged assets.

Fair value of property, plant and equipment

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

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

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

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

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

Information on the hierarchy of fair value as of December 31st, 2018 and December 31st, 2017:

	Level 1	Level 2	Level 3	Fair value as of December 31, 2018
Land and land planning	-	-	54.872	54.872
Buildings and special facilities	-	-	1.376.706	1.376.706
Plant and equipment	-	-	1.115.522	1.115.522
Metering and control devices	-	-	104.533	104.533
Vehicles	-	-	16.542	16.542
Other tangible fixed assets	-	-	54.721	54.721
Tangible assets in progress	-	-	320.449	320.449
	Level 1	Level 2	Level 3	Fair value as of December 31,2017
Land and land planning	-	-	54.818	54.818
Buildings and special facilities	-	-	1.209.489	1.209.489
Plant and equipment	-	-	1.194.501	1.194.501
Metering and control devices	-	-	108.145	108.145
Vehicles	-	-	18.229	18.229
Other tangible fixed assets	-	-	78.011	78.011
Tangible assets in progress	-	-	422.570	422.570

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NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

There were no transitions between the fair value levels in 2018 or in 2017.

The value at cost of property, plant and equipment as of December 31st, 2018 and December 31st, 2017, net of accumulated expenses with depreciation and impairment is presented below:

	Value at cost December 31,2018	Value at cost December 31,2017
Land and land planning	8.844	10.663
Buildings and special facilities	720.628	832.374
Plant and equipment	1.193.842	1.278.189
Metering and control devices	100.113	103.268
Vehicles	10.494	10.486
Other tangible assets	95.456	96.473
TOTAL	2.129.377	2.331.453

6. Intangible assets

As of December 31st, 2018 and December 31st, 2017 the Company's intangible assets are as follows:

	Other intangible assets	Licenses and software	Intangible assets in progress	Total
Cost				
Balance on 01 January 2018	4.104	65.366	9.444	78.914
Inflows	4	357	8.233	8.594
Transfers from intangible assets in progress	-	3.496	(3.496)	0
Transfers form capital assets in progress	-	732	-	732
Outflows	(1)	(245)	-	(247)
Balance on 31 December 2018	4.107	69.706	14.181	87.994
Balance on 1 January 2017	4.104	70.297	8.277	82.678
Inflows	-	789	1.919	2.708
Transfers from intangible assets in progress	-	1.761	(1.761)	-
Transfers form capital assets in progress	-	-	1.088	1.088
Outflows	-	(7.481)	(79)	(7.560)
Balance on 31 December 2017	4.104	65.366	9.444	78.914
ACCUMULATED DEPRECIATION				
Balance on 01 January 2018	4.104	58.847	0	62.951
Depreciation expense	3	1.780	0	1.783
Accumulated depreciation of outflows	(1)	(245)	0	(247)
Balance on 31 December 2018	4.105	60.382	0	64.488
Balance on 1 January 2017	4.104	63.799	0	67.903
Depreciation expense	0	2.529	0	2.529
Accumulated depreciation of outflows	0	(7.481)	0	(7.481)
Balance on 31 December 2017	4.104	58.847	0	62.951

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

	Other intangible assets	Licenses and software	Intangible assets in progress	Total
DEPRECIATION ADJUSTMENTS				
Balance on 01 January 2018	0	0	351	351
Expenditures with impairment adjustments	0	0	0	0
Balance on 31 December 2018	0	0	351	351
DEPRECIATION ADJUSTMENTS				
Balance on 1 January 2017	-	-	-	-
Expenditures with impairment adjustments	-	-	351	351
Balance on 31 December 2017	0	0	351	351
NET ACCOUNTING VALUE				
Balance on 31 December 2018	2	9.323	13.830	23.153
Balance on 31 December 2017	0	6.519	9.093	15.612

In 2018, the largest transfers of intangible assets in progress to intangible assets are represented by: mainly the commissioning of investments, as follows:

- Extending the MIS – advanced reporting and budgetary planning solution – 2,913,684;
- Upgrading the software platforms of the SCADA system from substation Slatina – 401,058;
- Software licenses applicable in the 110 kV & 20 kV substations Suceava - 236,093;
- Metering and SCADA licences in the 220/110/20 kV substation Sardanesti – 149,852;
- Station control server licences in the 220/110 kV substation Dumbrava – 139,066;
- EUROSTAG & SYSCAN software licences – 137,863;
- Software licences applicable in the 400/110/10 kV substation Cluj Est – 117,765;
- Upgrade of the existing antimalware solution – 45,414.

For the intangible assets in progress, the largest entries in 2018 were:

- Replacement of EMS SCADA AREVA system components - software component, hardware component -7,808,729;
- Upgrade of the existing antimalware solution – 22,707.

The balance of tangible assets in progress on 31 December 2018 is represented by ongoing projects, the most significant being provided below:

- Implementing the Electronic Archiving and Document Management system in CNTEE Transelectrica SA - 5,474,290;
- Replacement of EMS SCADA AREVA system components - software component, hardware component – 11,808,808;
- Extending the business continuity and post-disaster recovery services in the Executive group - 351,208.

ii) Financial assets

Financial assets include the value of shares held by the Company in its branches, of 32.635.720 on December 31, 2018 and 32.635.720 on December 31, 2017, as well as the shares held in the Regional Security Coordination Centre TSCNET Services GmbH of 2,207,160 on December 31, 2018 (- on December 31, 2017).

The Company's affiliation to the Regional Security Coordination Centre TSCNET Services GmbH was based on the performance of a share purchase transaction.

The Shareholders' General Assembly decision 9 / 05.06.2018 approved the Company's affiliation to the Regional Security Coordination Centre, the amount of 2,207,160 representing the Company's participation to the share capital of TSCNET Services GmbH, the payment being made on 25.06.2018.

While implementing the regional initiatives regarding the implementation of the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management and the

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation at CNTEE Transelectrica SA level, the Company identified the need of an affiliation with the Regional Security Coordination Centre (RSCC) TSCNET Services GmbH.

The Centre was set up in order to serve the transmission system operators (OTS) from Europe's east-central-western region (CORE region, of which Romania belongs), in view of implementing the coordinated European network codes, in accordance with the affiliation model adopted by all Transmission Operators in the region. Based on the affiliation model adopted by all transmission system operators in the region.

7. INVENTORIES

On December 31st, 2018 and December 31st, 2017, the inventories (at net value) were presented as follows:

	December 31, 2018	December 31, 2017
Spare parts	22.719	23.645
Consumables and other materials	8.279	7.353
Auxiliary materials	13.819	10.533
Other inventories	9.269	8.554
Total	54.085	50.106

As of December 31st, 2018 and December 31st, 2017, the inventories impairment adjustments are presented as follows:

	December 31, 2018	December 31, 2017
Adjustments for impairment of consumables	8.360	8.263
Adjustments for impairment of other materials	2.137	1.839
Adjustments for impairment of packaging	156	157
Total	10.652	10.259

As of December 31st, 2018 and December 31st, 2017, the evolution of inventories impairment adjustments are presented as follows:

	December 31, 2018	December 31, 2017
Balance on 01 January 2018	10.259	8.647
Inventories impairment adjustments	1.154	2.978
Reversal of inventories impairment adjustments	(761)	(1.366)
Balance on 31 December 2018	12.174	10.259

During 2018, the expenditures incurred with materials and spare parts consumption are presented as follows:

	December 31, 2018	December 31, 2017
Expenditures on spare parts	19.892	13.877
Expenditures on consumables	4.302	3.901
Expenditures on other materials	1.218	1.753
Expenditures on auxiliary materials	235	388
Expenditures on fuel	2.665	2.287
Total	28.312	22.206

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

8. TRADE AND OTHER RECEIVABLES

On 31 December 2018 and 31 December 2017 trade and other receivables were as follows:

	December 31, 2018	December 31, 2017
Trade receivables	1.047.228	853.451
Other receivables	89.327	121.398
Down payments to suppliers	52.627	11.102
VAT to be recovered	0	
Adjustments for impairment of uncertain trade receivables	82.774	47.899
Adjustments for impairment of other receivables	(143.013)	(124.988)
Trade receivables	(59.005)	(82.913)
Total	1.069.938	825.949

The structure of trade receivables is as follows:

	December 31, 2018	December 31, 2017
Clients on the electricity market, of which:	1.038.273	845.529
- Clients - operational activity - energy	438.570	382.603
- Clients - balancing market	400.554	243.548
- Clients – bonus type support scheme to promote high efficiency cogeneration	199.150	219.379
Clients from other activities	8.955	7.922
Total trade receivables	1.047.228	853.451

Group operates based on the Operating License No. 161/2000 issued by ANRE, as updated by the Decision of ANRE Chairman no. 641/25.04.2018, for the transmission of electricity, the provision of the system service and for the management of the balancing market.

On December 31st, 2018, the current customers in the operational activity registered a decrease compared to December 31st, 2017, which was mainly determined by:

- greater volume of transactions on the balancing market in November and December 2018 compared to the same period of 2017, determining an increase of trade receivables on balance as of 31 December 2018 in comparison with 31 December 2017;
- the collection of receivables for invoices issued for the electricity market in December 2018, during January 2019;
- the increased amount of transported electricity.

The main clients on balance on the electricity market are represented by: CIGA Energy, RAAN, Electrocentrale Bucuresti, Societatea Energetica Electrica, Electrica Furnizare, Enel Energie Muntenia SA, Enel Energie SA, E.ON Energie Romania, Complexul energetic Oltenia, Petprod. The weight of the main customers on the electricity market is about 61.32% in the Total Gross Receivables.

- CNTEE Transelectrica SA 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, as amended and supplemented, "the main tasks being to collect, on a monthly basis, the contribution for cogeneration and the monthly payment of bonuses".

On December 31st, 2017, the Company registered receivables to be cashed from the bonus type support scheme for promoting the high efficiency cogeneration in a proportion of approximately 19% (December 31st, 2017 - 26%) of the total trade receivables.

Clients from the bonus support scheme to promote high efficiency cogeneration registered on 31 December 2018 a drop of receivables, mainly determined by:

- the collection of receivables corresponding to ANRE decisions on the over-compensation of cogeneration for 2017, of 140,341,573, issued in March 2018, based on ANRE decisions;
- the collection of the staggered amounts (9,774,959) in the first and third quarter for the overcompensation for 2015 from Termoficare Oradea for SC Electrocentrale Oradea SA, based on the entered convention;

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

- reduced contribution value for high efficiency cogeneration determined by ANRE, beginning with 01 July 2018.

On 31 December 2018 the Company registered receivables amounting to 199,146,618, represented by the invoices issued under the bonus support scheme to promote high efficiency cogeneration, of which:

- overcompensation for the timeframe 2011 - 2013 in the amount of 76,702,140, namely from RAAN - 63,467,054 and CET Govora SA - 13,235,086;
- undue bonus for 2014 in the amount of 3,914,960, namely from RAAN - 1,981,235, CET Govora - 1,933,725;
- undue bonus for 2015 in the amount of 563,899, namely from CET Govora - 534,377, Interagro - 29,523;
- overcompensation for 2016 amounting to 56,680,387, namely from Electrocentrale Bucharest;
- contribution for cogeneration not collected from the suppliers of electricity consumers, in the amount of 21,094,158, namely from: Transenergo Com - 5,882,073, PetProd - 4,391,193, Romenergy Industry - 2,680,620, RAAN - 2,385,922, UGM Energy - 1,814,175, CET Govora - 900,864, KDF Energy - 887,527 and others.

At the date of this interim financial statement, the Company has fully collected the receivables for overcompensating the activity regarding the support scheme for the year of 2017 (the amount of 140,341,573), as follows: collections via bank transactions in the amount of 90,898,688 from Electrocentrale Bucuresti and collections on the grounds of compensations made via the Management and Informatics Institute (on the grounds of GD no. 685/1999) in the amount of 49,442,885 (out of which: Electrocentrale Bucharest-35,756,183; CET Govora-10,658,266; Enet SA-3,028,436);

In order to discharge 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 withheld from payment the amounts due related to the corresponding support scheme.

In the month of September 2016, CNTEE Transelectrica SA has concluded an agreement with SC Termoficare Oradea, to take over the debt of SC Electrocentrale Oradea, representing the overcompensation for the year 2014 and 2015. The taken-over debt, of 29,259,377, was scattered along 24 monthly instalments (31.10.2016-30.09.2018). The deadlines stipulated in the instalment agreement were observed.

- File 9089/101/2013/a140 was registered on the docket of Mehedinti Tribunal, Section II Civil of Administrative & Fiscal Disputes, file pertaining to "claims amounting to 86,513,431", where the Company is claimant, defendant being the **Regia Autonoma pentru Activitati Nucleare - RAAN**.

The suing proceeding expressed by Transelectrica SA requested compelling defendant RAAN to paying the sum of 86,513,431.

On 19.05.2016, Mehedinti Tribunal, Section II Civil of Administrative & Fiscal Disputes pronounced hearing conclusion disposing as follows: "According to art. 413 it. 1 Civil procedural code, it orders suspending the case until settlement of file 3014/2/2014 found on the docket of the High Court of Cassation and Justice; appeal right during the entire suspension. Pronounced on 19 May 2016 at public hearing". New hearing term set on 06.06.2019. Mention is made file 3014/2/2014 found on the docket of the High Court of Cassation and Justice pertains to appeal in order to cancel ANRE Decision 743/28.03.2014, and parties are RAAN (claimant) and ANRE (defendant).

Mention should be also made that conclusion 18.09.2013 pronounced by Mehedinti Tribunal under file 9089/101/2013 sordered opening the general insolvency procedure against debtor Regia Autonoma Pentru Activitati Nucleare RA (R.A.A.N.)

Sentence 387/20.03.2014 of Mehedinti Tribunal confirmed the reorganisation plan of debtor Regia Autonoma Pentru Activitati Nucleare, proposed by the judiciary administrator Tudor&Asociatii SPRL and voted by the General Assembly of Creditors according to the minutes of 28.02.2014.

In the intermediate ruling 10/28.01.2016, pronounced by Mehedinti Tribunal, Section II Civil of Administrative and Fiscal Disputes the syndic judge ordered opening the bankruptcy procedure for the debtor based on art. 107 para. 1 let. C of Law 85/2006, as well as dissolving the debtor and withdrawing its administration right.

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

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.

Once with submitting the liability statement in RAAN's bankruptcy procedure Transelectrica SA can resort to the provisions of art. 52 from Law 85/2006, applicable to RAAN's bankruptcy procedure, provisions taken over by art. 90 from Law 85/2014 on the creditor's right to invoke compensation of its liability with the debtor's to it, when the legal provisions of legal compensation are met on the procedure opening date. Transelectrica SA was registered in debtor RAAN's table with 11,264,777 lei, in the category of liabilities resulting from the debtor's continued activity, the actual amount the Company requested being 89,360,986 lei, thus leaving the sum of 78,096,208.76 lei out of the liability table on grounds that "*it does not show in RAAN's accounting books*". Moreover the judiciary liquidator considered the request to include 78,096,209 lei in the table was expressed late, pertaining to the 2011 – 2013 interval, for which reason the liability statement should have been provided when the insolvency procedure was initiated, namely on 18.09.2013. Contestation was submitted to the Additional Liability Table. Mehedinti Tribunal admitted the accounting expertise evidence. The parties expressed objections against the accounting expertise report, which were admitted by the law court that set 22.02.2018 as judgment date. On the contestation judgment date of 14.06.2018 suspension was pronounced until settlement of file 3014/2/2014 on the docket of the ICCJ. New hearing term set on: 06.06.2019.

CNTEE Transelectrica SA 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 instalment 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 40,507,669.

Following the suspension in court of ANRE Decision 738/28.03.2014 establishing the overcompensation amount for the timeframe 2011-2013 by Civil sentence 3185/27.11.2015, CET Govora SA has no longer observed its obligations assumed under the Agreement.

Beginning with 9 May 2016 the general insolvency procedure was instituted 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.

Taking into account the fore-mentioned circumstances beginning with 9 May 2016 the Company ceased applying the provisions of article 17.5 from Order 116/2013 of ANRE president approving the Regulation establishing the collection mode of the contribution for high efficiency cogeneration and the bonus payment for electricity produced under high efficiency cogeneration and paid the cogeneration bonus monthly to CET Govora.

By Civil ruling 2430/05.10.2016 the High Court of Cassation and Justice admitted the appeal state by ANRE against Civil sentence 3185/27.11.2015, has partially cancelled the contested sentence and has released the suspension request lodged by CET Govora, the judgment being final. Thus, starting with 05.10.2016, the effects of the ANDRE Decision no. 738/28.03.2014 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.

Transelectrica was recorded in the preliminary and final Table with one liability in total amount of 28,200,440.31, of which 25,557,189.98 associated to the support scheme. Mention should be made the liability in sum of 21,962,243.71 lei, representing main debit and penalties related to invoice 8116/08.04.2016 is registered under suspensive condition of pronouncing a final judgment in favour of ANRE under file 2428/2/2014 on the docket of the Appeal Court Bucharest, pertaining to cancelling ANRE decision 738/28.03.2014.

On the hearing date of 18.07.2018 Valcea Tribunal pronounced the following settlement:
It confirms the reorganisation plan of debtor SC CET Govora SA, submitted by the judiciary administrator EURO INSOL SPRL, submitted on 25 May 2018 to the file and published in the Bulletin of Insolvency Procedures 11924 of 13 June 2018. It denies the appeals filed by creditors Complex Energetic Oltenia SA, SNTFM CFR Marfa SA, Solek Project Delta SRL, Solek Project Omega SRL, Clean Energy Alternativ SRL and Solar Electric Curtisoara SRL. It sets as main issue term 8 Oct. 2018 to continue the suit. Appeal right within 7

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

days from notification, to be applied by the Bulletin of Insolvency Procedures. Pronounced at public hearing of 18 July 2018. Document: Ruling 1196/18.07.2018.

By Ruling 766/03.12.2018 the Appeal Court Pitesti cancelled the amount of 28,013,984.83 – representing liability the Company enlisted in the Creditors' Table (File 1396/90/2016).

Under such circumstances the Company included the amount of 22,188,224.16 related to the support scheme into the sundry debtors' account analytically distinct - ANRE, impacting the net position of the support scheme. In accordance with item 11 of HG 925/2016 amending and adding HG 1.215/2009 establishing the criteria and conditions necessary for the implementation of the support scheme to promote high efficiency cogeneration based on the useful thermal power demand, ANRE is going to elaborate the regulatory framework for the scheme's financial closure.

The amount of 22,188,224.16 represents trade receivable from CET Govora under the support scheme, in sum of 25,557,189.98, corrected with the Company-withheld bonus in sum of 3,368,965.82 according to art. 17 para. 5 from Order 116/2013 of ANRE President.

Taking into consideration the Government Decision 925/2016, as subsequently amended and supplemented, presented above in Note 1, the Company does not register expenses with depreciation allowances for clients for the support scheme, the unrecovered value of these receivables being included in the cogeneration contribution.

Other receivables

On 31 December 2018 other receivables amounting to 83,495,790 include mainly sundry debtors (71,200,632), deferred expenses (6,494,897), other fixed receivables (4,550,039)

On December 31st, 2018, other receivables in the amount of 83,495,790 mainly included:

- debitori diversi (71.200.632), reprezentand in principal late payment penalties calculated to late paying clients, amounting to 62,600,320 (out of which the amount of 26,012,776 represents penalties in relation to the support scheme). The largest penalties for late payment have been registered by the following customers: RAAN (16,901,449), CET Govora (9,606,504), Eco Energy SRL (8,909,843), Petprod SRL (8,894,655), Total Electric Oltenia (3,288,967), Arelco Power (2,816,658), Enol Group (2,541,312), Also Energ (2,121,010). For the penalty charges for late payment of the receivables from operating activities were recorded depreciation adjustments.
- compensations owed by suppliers for not delivering electricity (Arelco Power 2,816,658 and Enol Grup 2,541,312). Impairment adjustments were recorded for the compensations owed by suppliers from operating activities;
- receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to 4,517,460;
- deferred expenses amounting to 6,494,897 mainly represented by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future periods (5,248,958), a guarantee fee for the BEI 25710 loan (73,629) and commission of ING credit granting (28,384), rents (604,231);
- Other receivables amounted to 4,550,039, of which 4,199,505 represent guarantees for temporary occupation of the land calculated and retained in accordance with the art. 39 paragraph (1), paragraph (2) and paragraph (5) of the Law no. 46/2008 regarding the Forestry Code in order to achieve the investment objective LEA 400 kV Resita - Panchevo (Serbia).

Down payments to suppliers

On 31 December 2018 down payments paid to suppliers are represented by service debtor suppliers amounting to 52,627,078, which means mainly sums from the transactions under the price coupling mechanism. The application of the price coupling mechanism began on November 19th, 2014, the date on 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 of day-ahead markets, the electricity exchanges correlate, based on auctions, the day-ahead electricity trades depending on the interconnection capacity made available by TSOs through which it is implicitly allocated. CNTEE Transelectrica SA, in its capacity of TSO, transfers electricity both in physical and commercial terms to the neighbour TSO (MAVIR- Hungary) and manages the congestion revenues of the respective interconnection (article 139 of ANRE Order 82/2014), and in relation with OPCOM SA it holds the capacity of Implicit Participant on the Day-Ahead Market.

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

In its capacity of Transfer Agent and Implicit Participant CNTEE Transelectrica SA has the commercial assignment to settle the energy transacted between OPCOM SA and MAVIR.

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

Transelectrica's 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 carries out an individual analysis for trade receivables and other uncollected receivables.

The highest impairment adjustments as of 31st December 2018, calculated for trade receivables and related penalties were recorded for SC Eco Energy SRL (24,736,066), Petprod SRL (23,539,650), Arelco Power (14,545,496), Total Electric Oltenia SA (14,185,577), Romenergy Industry (13,512,997), Elsaco Energy (9,293,972), RAAN (8,516,707), Also Energ (7,177,167), Opcom (5,577,320), CET Brasov (4,664,627). In order to recover the receivables adjusted for impairment, the Company took the following measures: court action, enrolment in the statement of affairs, requesting clarifications from ANAF (for VAT to be collected from Opcom), etc.

The exposure to the collection risk and the allowances for receivables are provided in Note 30. EU's application of IFRS 9 "Financial Instruments" applicable for annual intervals beginning on or after 1 January 2018 will have no significant impact over the Company's financial statements in the initial period of application.

9. CASH AND CASH EQUIVALENTS

On 31 December 2018 and on 31 December 2017, cash and cash equivalents were as follows:

	December 31, 2018	December 31, 2017
Current bank accounts and deposits of which:	505.353	553.787
- cash from high efficiency cogeneration	41.705	19.173
- cash from revenues related to the allocation of interconnection capacities used for investments in the grid	133.729	84.247
- cash from the connection fee	18.426	31.153
Petty cash	141	88
Other cash equivalents	1	0
Total	505.494	553.875

Bank deposits with maturity under 90 days constituted from monetary availabilities found in current accounts (including cogeneration deposits) amounted to 309,135,805 on 31 December 2018 and to 251,047,468 on 31 December 2017.

10. SHAREHOLDERS' EQUITY

According to GEO 86/2014 on the establishment of reorganization measures at central public administration level and for modifying and completion of some normative acts, on February 20th, 2015 was recorded in the Company's shareholder Register the transfer of 43,020,309 shares 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.

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

According to the provisions of GD 27/12 January 2017 on the reorganisation and operation of the Ministry of Economy, the Company operates under authority of this Ministry of Economy.

On 3 March 2017 the transfer of the 43,020,309 shares was recorded in the Company's Shareholder Register, from the Romanian State account managed by the Ministry of Economy, Trade and Tourism into the Romanian State account managed by the Ministry of Economy.

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

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 lei/share and corresponds to the one registered in the Trade Register.

The shareholders' structure on 31 December 2018 and on 31 December 2017 was as follows:

Shareholder	December 31, 2018		December 31, 2017	
	Number of shares	% of the share capital	Number of shares	% of the share capital
Romanian State by MECRMA	43.020.309	58,69%	43.020.309	58,69%
Other shareholders – legal persons	20.157.347	27,50%	20.689.339	28,22%
DEDEMAN SRL	4.503.567	6,14%	4.192.363	5,72%
Other natural person shareholders	5.621.919	7,67%	5.401.131	7,37%
Total	73.303.142	100,00%	73.303.142	100,00%

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

As of December 31st, 2018 and December 31st, 2017, the share capital is as follows:

	December 31, 2018	December 31, 2017
Share capital (nominal value)	733.031	733.031
Share capital balance	733.031	733.031

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

The value of shareholders' dividends distributed from the retained earnings according to the General Assembly Decision no. 15/14.12.2018 amounts to 66,705,859, and their payment is done through the Central Depository starting with January 25, 2019. The amount of unpaid dividends as of December 31st, 2018 is 67,657,910 (December 31st, 2017: 2,414,333).

Share premium

All new shares issued within the capital increase by the primary initial public offering from 2006 were subscribed and fully paid in against the issue price. The share premium amounting to 49,842,552, being the difference between the share issue price and the share nominal value, was recorded in the Company's reserve account.

Legal reserve

Legal reserves of: 123.934 as of December 31st, 2018 and 119.153 as of December 31st, 2017 represent legal reserves constituted according to the statutory legislation and cannot be distributed. The Company transfers to this reserve at least 5% of its annual accounting profits (GEO no. 64/2001, Law no. 227/2015) until the cumulative balance reaches 20% of its paid in share capital.

Revaluation reserve

Reserves from the revaluation reserve amounts to 437.502 as of December 31st, 2018 and 408.899 as of December 31st, 2017. The latest revaluation of buildings and special installations was made on December 31st, 2018 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania ("ANEVAR").

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

Other reserves

As of December 31st, 2018, other reserves amount to 67.338 (57.627 as of December 31st, 2017), of which 20,952 represents the value of structural funds received from the Managing Authority for Sectoral Operational Program "Increase of Economic Competitiveness" and 42,428 represents the value of subsidies from connection tariffs, which were used to finance received investment works in assets that are part of the State's public domain, and 3,282 represents the value of the land for which certificates authenticating the ownership rights were obtained. As described in Note 23, the land for which the certificates authenticating the ownership rights are obtained is first recognized at fair value in reserve and followed by an increase in share capital after it is recorded with the Trade Registry Office.

Retained earnings

Retained earnings amount to 1.315.729 as of December 31st, 2018 (1.366.936 as of December 31st, 2017).

From the profit realized on December 31st, 2018 (81,303,373), the amount of 76,522,771 was allocated to "Other reserves", out of which:

- the amount of 53,127,283 represents the distribution in reserve of the amount of the profit for which the profit tax exemption was granted, except the part related to the legal reserve, starting with July 1, 2014, according to the provisions of art. 22 of Law no. 227/2015 regarding the Fiscal Code, with subsequent amendments and completions,
- the amount of 23,395,488 represents the partial allocation of the net revenues from the allocation of interconnection capacities made in 2017, up to the net profit realized on December 31st, 2018. According to Regulation (EC) No 714/2009 and ANRE Order no. 53/2013 the revenues from the allocation of the interconnection capacities are used to make investments in the electricity transmission network for maintaining or increasing the interconnection capacities. Under these conditions, the revenues realized in 2018 from the allocation of the interconnection capacity (net of profit tax and legal reserve) were partially allocated to the destination provided in art. 1 letter d) of GO no. 64/2001 "Other distributions provided by law" up to the net profit realized on December 31st 2018.

In 2018 revenues from the allocation of the interconnection capacity were made in the amount of 81,713,395. On allocation of revenues from the allocation of the interconnection capacity made in 2018 on the destination "other assignments provided by the law", the negative correction in the amount of 17,494,640 of the regulated income has been considered as a correction element from the tariff period 01 July 2016 - June 30, 2017 (positive correction in the amount of 433,804) and from the tariff period 01 July 2017 to 30 June 2018 (negative correction in the amount of 17,928,444), applied by ANRE to determine the average electricity tariff for the tariff period July 1, 2017 - June 30, 2018. Thus, the amount of 17,494,640 lei does not become the source of financing the investments in maintaining and / or increasing the cross-border interconnection capacity of the Romanian transport network, this amount being used in the calculation of the transport tariff as a source complementary to the revenue obtained from the transport tariff to cover the regulated costs for the tariff period is July 1, 2018 - June 30, 2019. In these circumstances, the revenues realized in 2018 from the allocation of the interconnection capacity (net profit and legal reserve), to be allocated for the creation of reserves, in order to realize investments in the network for maintaining or increasing interconnection capacities, in accordance with Regulation (EC) No 714/2009 and ANRE Order no. 53/2013, amounted to 51,246,566.

The distribution of net profit as at 31 December 2018

The distribution of the accounting profit of 81,303,373 on legal destinations after the deduction of the profit tax as of December 31st 2018, is the following:

Destination	Amount
Accounting profit after deducting the income tax on December 31st, 2018	81,303,373
<i>Distribution of accounting profit on the following destinations:</i>	
Legal reserve (5%)	4,780,602
Other law provided distributions – tax exemption for reinvested profit	53,127,283
Other law provided distributions - revenues achieved in 2018 from the allocation of the interconnection capacity (net of income tax and legal reserve) - partially, within the accounting profit remaining after deducting income tax on December 31, 2017	23,395,488
Not allocated profit	-

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

The calculation of the distribution for the profit after the deduction of the profit tax on 31 December 2018 was made in accordance with the provisions of the legislation in force, namely:

- GO no. 64/2001 - on the distribution of profits to the national companies, the national companies and the companies with full or majority state capital, as well as public autonomous companies, approved with amendments by the Law no. 769/2001, as subsequently amended and supplemented;
- Law no. 227/2015 on the Fiscal Code, as subsequently amended and supplemented;
- Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) 1228/2003;
- ANRE Order no. 53/2013, with the subsequent modifications and completions regarding the approval of the Tariff Pricing Methodology for the electricity transmission service;
- The report *Data considered by ANRE for the calculation of approved tariffs for the transmission and system services* submitted by ANRE under notice no. 51349/10.07.2018 (registered with CNTEE Transelectrica SA under no. 29081/10.07.2018).

The 2018 accounting profit after deducting the profit tax is allocated to the following destinations:

- a) - the legal reserve amounting to 4,780,602, determined in the 5% quota according to the provisions of art. 26 par. (1) (a) of Law no. 227/2015 on the Fiscal Code, as subsequently amended and supplemented;
- b) - other reserves representing fiscal facility allocations provided by law of 53,127,283, represented by the tax exemption of reinvested income tax, based on the provisions of art. 22 of Law no. 227/2015 regarding the Fiscal Code, as subsequently amended and supplemented;
- c) - other assignments provided by law in the amount of 23,395,488, represented by the revenues realized in 2018 from the allocation of the interconnection capacity (net profit and legal reserve), allocated according to the provisions of art. 1 lit. d) from GO no. 64/2001 on the distribution of profits to national companies, national companies and companies with full or majority state capital, as well as to the autonomous regies, as subsequently amended and supplemented, corroborated with the provisions of Regulation (EC) no. 714/2009 and the ANRE Order no. 53/2013 which provides for the use of revenues from the allocation of interconnection capacities for network investment to maintain or increase interconnection capacities.

In 2018 revenues were obtained from the allocation of interconnection capacities amounting to 81,713,395. On allocation of revenues from the allocation of the interconnection capacity made in 2018 on the destination "other assignments provided by the law", the negative correction in the amount of 17,494,640 of the regulated income has been considered as a correction element from the tariff period 01 July 2016 - June 30, 2017 (positive correction in the amount of 433,804) and from the tariff period 01 July 2017 to 30 June 2018 (negative correction in the amount of 17,928,444), applied by ANRE to determine the average electricity tariff for the tariff period July 1, 2018 - June 30, 2019. Thus, the amount of 17,494,640 lei does not become the source of financing the investments in maintaining and / or increasing the cross-border interconnection capacity of the Romanian transport network, this amount being used in the calculation of the transport tariff as a source complementary to the revenue obtained from the transport tariff to cover the regulated costs for the tariff period is July 1, 2018 - June 30, 2019.

In these circumstances, the revenues realized in 2018 from the allocation of the interconnection capacity (net profit and legal reserve), to be allocated for the creation of reserves, in order to realize investments in the network for maintaining or increasing interconnection capacities, in accordance with Regulation (EC) No 714/2009 and ANRE Order no. 53/2013, amounted to 51,246,566. The 2018 accounting profit after the deduction of the profit tax allowed the distribution on the "Other reserves" destination for the realization of investments in the network to maintain or increase the interconnection capacities only of the amount of 23,395,488, within the limit of the net profit realized. Thus, for the amounts related to the remaining revenues not covered by the profit of 2018, it is necessary to set up the reserves in the amount of 27,851,078 of the surplus from the revaluation (non-taxable and taxable when destination is changed reserves not taxable at the change of the destination).

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

11. DEFERRED REVENUES

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 December 31st, 2018, the deferred revenues were as follows:

	December 31, 2018	Of which: short term part on 31.12.2018	December 31, 2017	Of which: short term part on 31.12.2017
Deferred revenues – allocation of interconnection capacity	7.896	7.896	5.797	5.797
Deferred revenues - European funds	2.219	2.219	2.558	2.558
Connection fee funds	285.749	4.394	311.396	23.558
European funds	106.018	3.674	101.625	7.415
Other subsidies	28.602	1.146	32.371	1.553
Total	430.484	19.329	453.747	40.881

The evolution in advance long-term revenues during 2018 is presented as follows:

	December 31, 2018	December 31, 2017
Opening balance	40.881	38.025
Cash in advance related to interconnection capacity	95.112	75.479
Collections from European funds	90	1.327
Transfer of long-term deferred income	(23.312)	2.300
Revenues from use of the interconnection capacity	(93.014)	(76.261)
Revenues from European funds	(429)	(89)
Total	19.329	40.881

The evolution in deferred long-term revenues during 2018 is presented as follows:

	December 31, 2018	December 31, 2017
Opening balance	410.642	434.891
Connection subsidies	(2.676)	14.228
Grants	11.627	174
Grants to be repaid	15	-
Transfer to short-term deferred income	23.312	(2.300)
Release of deferred income	(31.765)	(34.127)
Total	411.155	412.866

In May 2018 CNTEE Transelectrica SA collected 10,243,894 Lei from the European Commission for the project of common interest of the Internal line between Cernavoda and Stalpu, representing non-reimbursable financing under the Connecting Europe Facility mechanism.

The project for an Internal line between Cernavoda and Stalpu includes the following investments:

- 400 kV double circuit OHL Cernavoda-Stalpu and connection in substation Gura Ialomitei (new line);
- Extending the Cernavoda 400 kV substation;
- Extending the Gura Ialomitei 400 kV substation;
- Stalpu 400 kV Substation (new substation).

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

Project implementation monitoring and control will be provided by the Innovation and Networks Executive Agency (INEA).

In July 2018 CNTEE TRANSELECTRICA SA collected the amount of 1,401,708 Lei from the European Commission for the 400 kV double circuit overhead line Gutinas – Smardan project and the amount of 18,037 Lei from the Ministry of Economy, a budgetary allocation for the Oradea – Bekescaba OHL project.

12. IMPRUMUTURI***Long-term loans***

On December 31st, 2018 and December 31st, 2017, the amounts owed to credit institutions for a period of over one year are the following:

Descriere	December 31, 2018	December 31, 2017
NIB PIL No 02/18 (a)	0	3.417
BIRD 7181 (b)	10.926	43.603
NIB PIL No 03/5 (c)	0	10.717
NIB PIL No 02/37 (d)	0	5.737
BEI 25709 (i)	78.595	89.742
BEI 25710 (i)	86.252	97.425
BRD-ING (j)	19.588	58.712
Unsecured bonds (k)	0	200.000
Total long-term borrowings from credit institutions, of which:	195.362	509.355
Less: Current part of long-term borrowings	(51.496)	(314.169)
Total long-term loans net of current installments	143.866	195.186

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

LOANS

Overview of the long-term loans as on December 31st, 2018 No.

No.	Name Loan	Date of award	Value Loan (currency)	Balance on December 31, 2018 (currency)	Balance on December 31, 2018 (RON)	Interest rate	Maturity date as per loan
1	NIB PIL 02/18	19.02.2003	18.442 USD	0	-	LIBOR 6M+0,9%	16.04.2018
2	BIRD 7181	15.07.2003	71.623 EUR	2.343 EUR	10.926	ultima comunicata 0%	15.01.2020
3	NIB PIL 03/5	12.11.2004	23.000 EUR	0	-	EURIBOR 6M+0,85%	17.09.2018
4	NIB PIL 02/37	25.02.2004	12.928 EUR	0	-	EURIBOR 6M+0,9%	17.09.2018
5	BEI 25709	05.08.2010	32.500 EUR	16.852 EUR	78.595	3,60%	10.09.2025
6	BEI 25710	05.08.2010	32.500 EUR	18.494 EUR	86.252	3,856% si 2,847%	11.04.2028
7	ING+BRD	26.07.2012	42.000 EUR	4.200 EUR	19.588	EURIBOR 6M+2,75%	13.02.2019
8	Obligatiuni negarantate	19.12.2013	200.000 RON	0	-	6,10%	19.12.2018
TOTAL					195.362		

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

Long-term loans are detailed as follows:

a) Loan no. 02/18 from NIB PIL

The loan from NIB was granted on February 19th, 2003. The total payable amount as of December 31, 2018 is zero USD. The last instalment was repaid in April 2018, i.e. 878,175.45 USD. The loan was granted to finance the rehabilitation of the Slatina 400/220 kV electrical substation. The loan bore a variable interest rate of six months LIBOR plus a 0.9% margin. Repayment was scheduled over 10 years in 20 instalments, from 2008 to 2018.

b) Loan no. 7181 from IBRD

The loan from IBRD was granted on July 15th, 2003 for the objective "Electricity Market". The total amount outstanding as of December 31st, 2018 is EUR 2,342,649. The loan bears a variable interest rate communicated by IBRD depending on the financing cost. The interest rate for the last instalment was 0%. The repayment is performed biannually (on January 15th and July 15th of each year), starting July 15th, 2008, with the last instalment being scheduled on January 15th, 2020.

The loan agreement includes certain financial provisions: (i) a debt service cover ratio of not less than 1.3 and (ii) a ratio of current assets to current liabilities of not less than 1.2.

c) Loan no. 03/5 from NIB PIL

The loan from NIB was granted on November 12th, 2004 for the objective "Rehabilitation of the Gutinas 400/220/110 kV electrical substation". The total amount outstanding as of December 31st, 2018 is zero EUR. The last instalment of 1,150,000 EUR was repaid in September 2018. The interest rate was 6 month EURIBOR plus 0,85%, repayment was performed biannually, in equal instalments starting March 15th, 2009, with the last instalment on September 17th, 2018.

d) Loan no, 02/37 from NIB PIL

The loan was granted by NIB on February 25th, 2004 for the objective "Rehabilitation of the Rosiori 400/220 kV electrical substation". The total amount outstanding as of December 31st, 2018 is zero EUR. The last instalment of 615,616.38 EUR was repaid in September 2018. The interest rate is 6 months EURIBOR plus 0.90%, the repayment being performed biannually, in equal instalments starting September 15, 2008, with the last instalment being scheduled on September 17, 2018.

e) Loans no. 25709 and no. 25710 from EIB

The loans were granted by EIB on August 5th, 2010 for financing the modernization and rehabilitation of the Romanian Power Transmission Grid. Each loan amounts to EUR 32,500,000. Loan no. 25709 is not secured, while loan no. 25710 is secured by CitiBank Europe PLC. Dublin - Romania branch. The repayment period is of 15 years, with a grace period of 2 years. The repayment is scheduled from 2012 to 2025 for EIB loan no. 25709 (on March 10th and September 10th of each year) and from 2013 to 2028 for EIB loan no. 25710 (on April 11th and October 11th of each year). The interest rates are 3.596% for EIB loan no. 25709 and 3.856% and 2.847% for EIB loan no. 25710.

The amount outstanding as of December 31st, 2018 for the EIB loan no. 25709 is EUR 16,851,852 and for EIB loan no. 25710 EUR 18,493,590.

The EIB loan agreement no. 25709 includes certain financial provisions: (i) a ratio of EBITDA to interest payments for long-term loans during the year of not less than 4,2; (ii) a ratio of debt to equity of not more than 0,95; (iii) a ratio of total net debt and EBITDA of no more than 3,5.

Loan no. 25710 from EIB is guaranteed by CitiBank Europe PLC, Dublin – Romania branch. The contract bears a guarantee commission of 0.46% per annum, computed at 115% of the value of the balance. The guarantee agreement concluded on January 26th, 2011 includes certain financial provisions: (i) a ratio of consolidated EBITDA to consolidated net financial expenses of not less than 4.2; (ii) a ratio of total net debt to equity of not more than 0.95.

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

The loan was granted on July 26th, 2012 by the consortium made up of ING Bank N.V., Amsterdam (Bucharest branch) and BRD – Groupe Société Générale SA. The loan is meant to finance the following

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

investments: refurbishment of the Lacu Sarat 400/200/110/20 kV substation, refurbishment of the Mintia 220/110 kV substation, integrated security systems in substations and replacement of autotransformers and transformers in electrical substations. The repayment period is of 84 months with a grace period of 24 months, with equal instalments payable every semester starting from August 2014. The loan bears a variable rate of 6 month EURIBOR, plus a margin of 2.75%. The loan is 100% guaranteed through assignment of receivables. The outstanding amount as of December 31, 2018 is 4,200,000 EUR.

The loan agreement includes certain financial provisions: (i) a ratio of EBITDA to financial expenses of no less than 4.2; (ii) a ratio of total net debt to EBITDA of no more than 3.5.

g) Bonds issue

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

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

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

As of December 31st, 2018, the financial indicators corresponding to loan agreements, including from bonds issue, were met.

The long-term part of borrowings will be repaid as follows:

	December 31, 2018	December 31, 2017
Between 1 and 2 years	23.997	51.449
Between 2 and 5 years	67.467	68.913
More than 5 years	52.402	74.824
Total	143.866	195.186

The Company has not taken risk hedging measures associated to its hard currency liabilities or to the exposure to interest rate risks.

All the long-term loans, except for the agreements EIB 25709 and EIB 25710 and Bonds, bear a variable interest rate and consequently, the fair value of the long-term loans is similar to their book value.

As of December 31st, 2018, the long-term loan guaranteed by the Romanian Government through the Ministry of Public Finances is IBRD 7181.

The loan from ING and BRD was initially guaranteed by assignment of receivables from SC E.On Energie Romania SA, SC E-Distributie Muntenia SA, SC Alpiq Romindustries SRL, SC Electromagnetica SA, SC Met Romania Energy Marketing SRL and through the real movable security over the investment accounts opened with ING and one investment account opened with BRD SMCC.

Starting November 2016, the loan is secured by the assignment of the receivables that the Company has to collect only from SC EON Energie Romania SA and SC Enel Distributie Muntenia SA and by the real movable security over the investment accounts opened with ING and an investment account opened with BRD SMCC.

The guarantee agreement concluded with CitiBank Europe PLC is secured by assignment of receivables that the Company has to collect from SC Enel Energie Muntenia SA.

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

Short term borrowings

Short-term borrowings are detailed as follows:

	December 31, 2018	December 31, 2017
Current share of long-term loans	51.496	314.169
Overdraft SMART	7.837	21.119
Interest on long and short-term loans	1.816	2.460
Interest of bonds	0	435
Total short-term borrowings	61.149	338.183

Loans contracted for current activities

Transelectrica has concluded the credit agreement no. C55/01.03.2018 with Raiffeisen Bank for a period of 12 months for financing the bonus type support scheme for high efficiency cogeneration, in the form of overdraft amounting to 100,000,000, with an interest calculated according to the ROBOR 1M reference rate, plus a negative margin of 0.35%. In case the value of the reference rate ROBOR 1M is below 0.35%, the interest rate applied is 0%.

It was secured by means of:

- movable mortgage on the account opened at the bank;
- mortgage on the receivables resulting from the High Efficiency Contribution Contribution Agreements concluded with CES Sale S.A., E.ON Energie Romania S.A .

As of December 31st, 2018, the credit line is not used,

SMART S.A. has been contracted from ING Bank NV Amsterdam a credit line with variable interest.

13. OBLIGATIONS REGARDING EMPLOYEE BENEFITS

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

Also, according to the collective labor agreement, the Company provides long-term benefits to both employees – depending on the length of service and seniority within the Company – and to former employees after retirement. The benefits awarded to management personnel are included in Note 25, under *Remuneration of the Company's management*.

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

- retiree premiums ranging from 1 to 5 gross monthly base salaries, depending on the number of years of seniority within the Company on the date of retirement;
- anniversary premiums between 1 and 5 gross monthly base salaries, depending on the number of years of seniority within the Company;
- free electricity paid after retirement of 1,800 kWh/year, paid according to the collective labour agreement.

The actuarial calculations referring to the post-employment benefits and other long-term benefits were made by an authorized actuary, based on the service agreement concluded with Casianis Bucuresti SRL.

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

OBLIGATIONS REGARDING EMPLOYEE BENEFITS

	December 31, 2017	Cost of interest	Cost of current service	Payments from provisions	Actuarial loss for the period	December 31, 2018
Benefits pertaining to anniversary premiums to be granted to current employees	27.114	861	1.045	(2.323)	(4.068)	22.629
Benefits pertaining to maternity premiums to be granted to current employees	0	1	4	(16)	28	17
Benefits pertaining to retiree premiums of current employees	13.751	643	1.095	(2.130)	6.136	19.495
Benefits pertaining to premiums granted for the labor agreement termination	0	4	6	(29)	112	93
Benefits pertaining to the counter value of electricity to be paid to current employees after retirement	10.306	458	813	0	(1.955)	9.622
Benefits pertaining to the counter value of electricity paid to current retirees	11.343	617	3.101	(980)	50	14.132
Total	62.514	2.583	6.065	(5.478)	304	65.987

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

	December 31, 2018	December 31, 2017
Discount rate	Values in the range 3.384% - 5.901% set based on the interest curve provided by EIOPA for December 2018	Values in the range 3.5% - 4.6% set based on the government securities transactions on the secondary market and correlated with the development of the inflation target level set by NBR for the following years.
for the first 5 years	A 2.5% annual inflation in the short run	A 2% annual inflation in the long run and an actual output of 1.86%
For more than 5 years	A 1.9% annual inflation in the long run	
Wage increase	The wages follow the inflation rate development.	The wages follow the inflation rate development.

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

6. TRADE AND OTHER PAYABLES

On 31 December 2018 and on 31 December 2017 trade and other liabilities were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Providers - electricity market	780.292	538.923
Suppliers of assets	30.651	46.283
Suppliers of other activities	22.565	18.634
Sums owed to employees	8.590	7.537
Other payables	176.250	81.972
Total	<u>1.018.347</u>	<u>693.349</u>

On December 31, 2018 and December 31, 2017, outstanding debts on the energy market amounted to 780,292,021 and 538,923,244 respectively, and presented the following structure:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Suppliers on the electricity market, out of which:		
- suppliers – operational activity – energy	188.915	110.801
- suppliers - balancing market	383.389	204.920
- suppliers in the bonus support scheme for the promotion of high-efficiency cogeneration	207.988	223.202
Total	<u>780.292</u>	<u>538.923</u>

Electricity market suppliers are mainly represented by: SC Hidroelectrica SA, Electrocentrale Bucuresti, Complex Energetic Oltenia, Romgaz, Mavir, RAAN, Electrocentrale Galati, Complex energetic Hunedoara, Ciga Energy. On 31 December 2018 their share was about 85% in the total energy suppliers.

- the increase in the balance of debts related to the electricity market towards the operational activity providers was mainly determined by the increase in the electricity quantity for covering the own technological consumption in the transmission grid;
- the increase 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, 2018 by the deadline in January 2019 and by the increase in the trading volume on the balancing market in the fourth quarter of 2018 compared to the fourth quarter of 2017.
- the decrease in debts related to the support scheme towards the suppliers (producers) was determined by the payment of the invoices issued as per ANRE decisions for the monthly bonus for 2018, the non-granted bonus for 2017 and the ante-overcompensation for 2017.

As of December 31, 2018, payment obligations were registered towards suppliers (producers) in the amount of 111,233,189 (Electrocentrale Bucuresti – 56,680,387, RAAN – 51,183,836, CET Govora SA – 3,368,966), representing the monthly cogeneration bonus, the ante-overcompensation for the years of 2014 and 2015, as well as the bonus not granted for the years of 2015 and 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 asked the suppliers (producers) that did not pay the overcompensation invoices to agree with compensating mutual liabilities at their minimum level through the Institute of Management and Information (IMI) which is uniformly managing all information received from tax-payers according to the provisions of GD 685/1999.

The producers (RAAN, Electrocentrale Bucharest, CET Govora) did not agree with this method to settle mutual liabilities and for this reason the Company has applied and still applies the provisions of article 17 para 5 from Order 116/2013 of ANRE president approving the Regulation establishing the collection manner of the contribution for high efficiency cogeneration and bonus payment for the electricity generated by high efficiency cogeneration: "if the manufacturer did not make the payment in full to the administrator of the support scheme

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

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 withheld from payment the amounts due related to the corresponding support scheme.

CNTEE Transelectrica SA 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 instalment 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 40,507,669.

The Civil sentence 3185/27.11.2015 suspended ANRE Decision 738/28.03.2014 establishing the value of the 2011-2013 overcompensation, therefore CET Govora SA has no longer complied with the obligations assumed under the Agreement. Beginning with 9 May 2016 the general insolvency procedure was instituted for CET Govora. Taking into account the provisions of Law 85/2014 on insolvency, beginning with 9 May 2016 the Company ceased applying the provisions of article 17.5 from Order 116/2013 of ANRE president approving the Regulation establishing the collection mode of the contribution for high efficiency cogeneration and the bonus payment for electricity produced under high efficiency cogeneration and pays monthly the cogeneration bonus owed to CET Govora.

By Civil Decision no. 2430 / October 5th, 2016, the High Court of Cassation and Justice admitted the appeal filed by ANRE against Civil sentence no. 3185 / November 27th, 2015, partially cancelled the sentence and rejected the suspension request lodged by CET Govora. Thus, starting 05.10.2016, the effects of the ANRE Decision no. 738/28.03.2014 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 December 31st, 2018 compared to December 31st, 2017 is due to the payment towards the equipment, works and services providers for the investment projects.
- 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 an insignificant increase compared to December 31st, 2017.

The structure of debt recorded as "other liabilities" is presented as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Various creditors	25.055	32.010
Clients – creditors	71.021	37.486
Payable dividends	67.658	2.414
Other payables	12.516	10.063
Total	<u>176.250</u>	<u>81.973</u>

On December 31, 2018, the position 'different creditors' in the amount of 24,983,402 represented mainly the net position of the support scheme for high efficiency cogeneration, which on December 31, 2018 registers a debt position amounting to 23,804,879 (December 31, 2017: 30,451,865), up from December 31, 2017 pursuant to the increase in the contribution for high-efficiency cogeneration.

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

- The value of the contribution collectable from the suppliers of electricity consumers, the value of overcompensation for electricity and heat generated under high efficiency cogeneration, the undue bonus payable by producers according to ANRE decisions, on the one hand, and
- the cogeneration bonus amount, the ante-overcompensation and the bonus not granted to be paid to the high efficiency cogeneration energy producers, the beneficiaries of the support scheme, on the

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

other hand.

"Clients creditors" on December 31st, 2018 amounted to 55,729,127, out of which 4,048,160 represent amounts collected in advance from MAVIR and 51,056,783 represent amounts collected in advance from OPCOM within the transactions related to the price coupling mechanism.

Other debts amounting to 12,516 are mainly represented by guarantees for the proper execution of service contracts on the electricity market concluded by CNTEE Transelectrica SA, amounting to 10,979.

7. PROVISIONS

As of December 31st, 2018 and December 31st, 2017, the provisions are as follows:

	December 31, 2018	December 31, 2017
Provisions for litigations	62.440	3.502
Provisions for mandate contracts	33.132	38.498
Fund for employees' profit sharing	55	45
Other provisions	866	876
Total	96.494	42.921

Outstanding provisions on December 31, 2018 are as follows:

	Provisions for litigations	Share-based payment provisions	Fund for employees' profit sharing	Other provisions
Balance on 01 January 2018	3.502	38.498	45	876
Additions in provisions (profit and loss account)	59.386	267	10	83
Reversal of provisions (profit and loss account)	(448)	(5.633)	0	(93)
Additions in provisions (AERG)	0	0	0	-
Reversal of provisions (AERG)	0	0	0	-
Balance on 31 December 2018	62.440	33.132	55	866

Provisions for litigations outstanding as of December 31st, 2018 amounting to 62.440 consist mainly of provisions created for the following litigations:

- The Company submitted on 01.07.2017 summons regarding issuance of a payment ordinance, suit under file no. 24552/3/2017, on the docket of Bucharest Tribunal, Section VI Civil, requesting the court to pronounce a judgment obliging the debtor ASITO KAPITAL SA to pay the amount of 7,058,773.36 Euro (equivalent of 31,180,857.96 Lei), representing insurance policies to provide down payments BR – 1500544/18.11.2015 and BR – 1500520/29.07.2015.

Settlement in brief: The demand is admitted. The debtor is ordered to pay 2,237,750.83 Euro (equivalent of 9,948.592,64 Lei at the exchange rate of 4.4458 lei / euro) within 20 days from notification of this judgment, representing unreturned down payment secured under indemnity letter for down payment no. BR-1500544/18.11.2015 as well as 4,821,022.53 Euro (equivalent of 21,233,265.32 Lei at the 4.4041 lei/euro exchange rate) representing unreturned down payment secured under indemnity letter no. BR-1500520/29.07.2015 for down payment; 200 Lei as suit legal costs. Appeal right within 10 days from notification.

Decision 4067/07.11.2017 was drafted and communicated to both parties on 17.10.2018.

On 01.11.2018, Decision 4067/07.11.2017 was legalized and BEJ Raileanu filed for execution of the enforcement order.

On 06.11.2018, ASITO KAPITAL SA paid the Company the amount of 31,181,857.96 as follows:

- the amount of 21,233,265.32 - according to the Civil Decision no. 4067/2017 (EUR 4,821,022.53 at the 4.4041 rate);

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

- the amount of 9,948,592.64 - according to the Civil Decision no. 4067/2017 (EUR 2,237,750.83 at the 4,4458 rate).

As of October 26, 2018, ASITO KAPITAL SA formulated within the legal term an application for annulment against the Decision 4067/2017.

Considering the demand for cancellation filed by ASITO KAPITAL SA against Decision 4067/2017, the Company established a provision for litigation of 31,180,858.

We should mention that, within file 35865/3/2018 (former file no. 24552/3/2017) the hearing term set for settlement of the request to cancel the payment ordinance whereby repayment of RON 31.2 mn was ordered, was set for on 19.02.2019. Postponement of decision: 20.03.2019.

- On 02.11.2018 on the docket of Bucharest Tribunal, Section VI civil was registered a new suing proceeding filed by Conaid Company SRL, under file 36755/3/2018, whereby the claimant requested the court to compel Transelectrica SA to „repair the prejudice caused to the claimant for the culpable non-execution of defendant's obligations, in quantum of 17,216,093.43 lei, consisting of loss actually incurred and non-achieved benefit, provisionally estimated to 100,000 euro taking into account the unjustified refusal of Transelectrica SA to conclude and sign an addendum to Contract C154/27.04.2012, and in case the court will find that in formal terms the obligation of suspensive conditions cannot be considered met by the claimant, such non-execution is owed to the exclusive guilt of Transelectrica SA, the defendant preventing its compliance with the conditions". Hearing term: 09.04.2019 (see Note 24).

- Case file no. 2494/115/2018* is pending with the Caras Severin Court. Through its summons the claimant Resita City requests that the defendant CNTEE Transelectrica SA should be compelled to pay the following amounts:

- 2,129,765.86 Lei, representing rent for the land area temporarily taken from the forestry fund in 2015;

- 2,129,765.86 Lei, representing land rent for 2016;

- 2,129,765.86 Lei, representing land rent for 2018;

- penalty legal interest from due date until actual payment.

- legal expenses

The company set up a provision for the litigation with Resita City of 6,389,298.

- file no. 2434/115/2018* re-registered with the Court of Bucharest - Civil Section VI. In its lawsuit, the plaintiff Regia Nationala a Padurilor Romsilva - Caras Severin Forest Management Department asks that the defendant CNTEE Transelectrica SA should be compelled to pay the following amounts:

- 2,433,609.52 annual lease for the temporary occupation of the land in the national forest fund + late payment penalties from the due date of the lease 31.01.2018 until actual and full payment;

- 304,298.47, equivalent value of the final disposal of the land from the national forest fund, equivalent value of the loss in the enhanced exploitation of wood + late payment penalties from 10.05.2015 until actual and full payment;

The case was seen in file 2434/115/2018, pending with the Court of Caras Severin.

On November 29, 2018, the Court of Caras Severin pronounced the sentence no. 3326/2018, ordering the following: "To admit the exception for territorial non-competence of the Court of Caras Severin. To refer the competence for solving the demand filed by the plaintiff RNP - Romsilva, Caras Severin Forest Management Department against the defendants National Power Grid Company Transelectrica SA and National Power Grid Company Transelectrica SA - Timisoara Transmission Branch. Final. Ruled in open court on November 29, 2018."

The file was registered with the Court of Bucharest - Civil Section IV, no. 2434/115/2018, which, on 22.01.2019, pronounced the following settlement: "To admit the exception of functional non-competence. The file should be submitted to Civil Section VI of the Bucharest Court, for settlement. No appeal. Ruled in open court on January 22, 2019."

The file was re-registered with the Court of Bucharest - Civil Section VI, no. 2434/115/2018*, which, on 13.02.2019, pronounced the following settlement: "To admit the exception of the fundamental non-competence of the Court of Bucharest - Civil Section VI, invoked automatically. To decline jurisdiction in favour of Bucharest Court, Civil Section IV, to which the file shall be immediately submitted. Ascertains a negative conflict of competence, suspends the judgment of the case and submits the file to the Court of Appeal of Bucharest, for settlement. No appeal. Ruled in open court on February 13, 2019."

The company established a provision for the litigation with Regia Nationala a Padurilor Romsilva - Caras Severin Forest Department of 2,737,907.

- Litigiul cu filiala OPCOM in suma de 2.670.029 pentru amenda stabilita in urma investigatiei UE. La data de 24.11.2014, Filiala SC OPCOM SA, a chemat în judecata CNTEE Transelectrica SA, in vederea obligarii acesteia la plata sumei de 582.086,31 euro (2.585.161 la cursul BNR din data de 24.11.2014), reprezentand suma achitata de aceasta cu titlu de amenda, din totalul amenzii de 1.031.000 euro aplicata filialei OPCOM S.A. de catre Comisia Europeana, in conditiile in care filiala SC OPCOM SA a efectuat plata integrala a amenzii stabilita de Comisia Europeana.

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

De asemenea, OPCOM SA a mai solicitat instantei de judecata obligarea Companiei la plata sumei de 84.867 cu titlu de dobanda legala aferenta perioadei 11.06.2014 – 24.11.2014, la care se adauga cheltuieli de judecata in suma de 37.828 (vezi Nota 24 *iii*).

- the provision with the OPCOM Branch of 2,670,029 for the fine set pursuant to the EU investigation. On November 24th, 2014, the SC OPCOM SA subsidiary summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086,31 euro (2,585,161 lei at the NBR 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 applied to the subsidiary OPCOM S.A. by the European Commission, in the context in which the SC OPCOM SA subsidiary paid the entire fine established by the European Commission. Also, the SC OPCOM SA subsidiary requested the court to order the Company to pay the amount of 84,867 as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 37,828 (see Note 24 *iii*).

Other provisions in the amount of 83,225 are represented by are accrued provisions for unpaid leave.

As of December 31st, 2018, the Company registered a provision of 33,132,184 (38,498,154 as of December 31st, 2017) for the annual variable component owed to the Directorate and Board of Supervisors members (see Note 26).

The provision amounting to 44,799 is mainly represented by the provision created for the employees' profit participation for the financial years 2013, 2015 and 2016, amounts not granted until December 31st, 2018.

8. INCOME TAX

The income tax for the years 2018 and 2017 is presented as follows:

	December 31, 2018	December 31, 2017
Current income tax expense	(14.741)	(24.389)
Net income from deferred income tax	902	5.294
Total	(13.839)	(19.096)

The tax on the current and deferred income of the Company for 2018 and 2017 is determined at a statutory rate of 16% and is applicable for 2018 and 2017.

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

INCOME TAX

The movement regarding deferred taxes during 2018 and 2017 is as follows:

Elemente	Balance on January 1, 2017	Recognised in profit and loss	Recognised directly in AERG	Balance on December 31, 2017	Recognised in profit and loss	Recognised directly in AERG	Balance on December 31, 2018
Property, plant and equipment – lifetimes	4.320	487	-	4.807	1.285		6.092
Property, plant and equipment – revaluation reserves	40.872	(4.685)	-	36.187	(6.683)	36607	66.111
Property, plant and equipment financed by subsidies	(1.699)	(509)	-	(1.190)	(272)		(1.462)
Obligations regarding employee benefits	(3.699)	(1.013)	-	(4.712)	2.223		(2.489)
Interconnection estimate	(482)	(507)	-	(989)	(394)		(1.383)
Provisions	(6.777)	-	-	(6.777)	0		(6.777)
Other elements	-	925		925			925
Tax (assets)/liabilities	32.565	(5.302)	0	27.263	(3.842)	36.607	61.016

The deferred tax consists of::

	Asset		Liability		Net	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Property, plant and equipment – lifetimes	(1.791)	(1.245)	7.883	6.062	6.092	4.807
Property, plant and equipment – revaluation reserves	(4.226)	(3.606)	71.334	39.793	67.108	36.187
Property, plant and equipment financed by subsidies	(2.695)	(1.190)	2.479	-	(215)	(1.190)
Obligations regarding employee benefits	(3.035)	(4.712)	-	-	(3.035)	(4.712)
Interconnection estimate	(2.158)	(989)	-	-	(2.158)	(989)
Provisions	(6.777)	(6.777)	-	-	(6.777)	(6.777)
Other elements	-	-	-	925	-	925
Net tax (assets)/liabilities	(20.680)	(18.519)	81.696	46.780	61.016	27.263

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

9. EARNINGS PER SHARE

As of December 31st, 2018 and December 31st, 2017, the earnings per share is as follows:

	December 31, 2018	December 31, 2017
Result of the financial exercise	75.380	21.424
Number of ordinary shares at the beginning and at the end of the period	73.303.142	73.303.142
Basic and diluted lost/earnings per share (lei/share)	1,03	0,29

10. OTHER TAX AND SOCIAL SECURITY LIABILITIES

On December 31, 2018 and on December 31, 2017 other tax and social security liabilities include:

	December 31, 2018	December 31, 2017
Contribution to social security funds	8.429	6.364
Payable VAT	11	745
Salary tax	1.906	2.489
Other tax payable	1.232	1.627
Total	11.578	11.225

On December 31st, 2018, the Company registered payment obligations for contributions to social insurance funds, payroll tax and other taxes that were paid in the month of January 2019.

11. OPERATING REVENUES

Operating revenues include revenues from the transmission and system services provided by the Company 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 the services provided on the electricity market are as follows:

	Average price for the transmission service	Average price for the technological system services	Average price for the functional system services
Order no. 108/20.06.2018 for 01 July – 31 December 2018	18,13	10,44	1,11
Order no. 122/19.12.2017 for 01 Jan 2016 – 30 June 2018	16,86	12,06	1,11
Order no. 48/22.06.2017 for 01 July 2016 – 31 Dec 2017	16,86	9,39	1,11
Order no. 27/22.06.2016 for 01 Jan 2016 – 30 Jun 2017	18,70	11,58	1,30

The average tariff for electricity transmission has two components: the tariff for 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, 108/2017, starting with July 1st, 2018.

The quantity of electricity delivered to consumers where tariffs were charged for services provided on the electricity market is as follows:

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

	December 31, 2018	December 31, 2017
The amount of electricity delivered to consumers (MWh)	55.775.645	54.753.325

The revenues obtained in 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Revenues from electricity transmission	973.613	970.694
Revenues from the allocation of the interconnection capacity	81.713	75.727
Revenues from reactive energy	5.499	6.317
Revenues from transactions with own technological consumption	5.913	1.106
Inter TSO Compensation (ITC) revenues	3.098	785
Transmission Revenues - total	1.069.837	1.054.629
Functional system service revenues	61.943	65.980
Technological system service revenues	637.497	582.330
Revenues from unplanned exchanges on DAM	1.908	2.437
Income from emergency aids	274	0
Total revenues from system services	701.622	650.747
Revenues on the balancing market	903.865	1.304.613
Other incomes	50.281	58.015
Total revenues	2.725.605	3.068.004

Revenues from electricity transmission

In 2018 compared to 2017 revenues from transmission services registered increase of 2,919,382, determined by 1.87% higher amounts of electricity delivered to consumers in 2018 compared to 2017, namely 1,022,320 MWh, against the background of diminished tariffs approved by ANRE (as per the table with ANRE-approved tariffs in the studied periods, shown previously). Thus the tariff calculated as average of 2018 tariffs – 17.50 lei/MWh was 1.58% lower than the tariff calculated as average of 2017 tariffs – 17.78 lei/MWh.

Revenues from the allocation of the interconnection capacity

In 2018, the income from the interconnection capacity allocation has registered a increase compared to 2017, in the amount of 5,986,561, corresponding to the level of usage of the available interconnection capacity by traders on the electricity market.

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.

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, using a 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

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

subsequently sold in the daily auctions. On the Hungarian border the direction is reversed, meaning that MAVIR compensates the participants for the unused capacities.

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 Inter TSO Compensation (ITC)

ITC revenues were higher in 2018 compared to 2017 by 1,991,648 mainly due to registering higher revenues in March, April and June 2018. In addition to the proceeds for energy exchanges scheduled with perimetral countries, in these months proceeds were registered also in the associated monthly settlements instead of costs, as a consequence of diminished net exports/imports from/into SEN, namely of higher amounts of energy transited through SEN. Also the calculations of monthly settlements for inter OTS compensations are impacted by the exchanges of energie of other countries.

Revenues from CPT (one's own technological consumption)

Revenues from CPT (losses) transactions were higher in 2018 compared to 2017 by 5.127.589, due to registering revenues from CPT transactions on the Balancing Market in 2018 since on 18.01.2018 was enforced the Contract of „Electricity procurement to cover imbalances of quantities notified for technological losses of electricity in electrical transmission networks by transfer of balancing responsibility”, concluded by CNTEE Transelectrica SA and CIGA ENERGY SA, whereby the energy procurement prices were reduced on the balancing market.

Revenues from functional system services

In 2018 revenues from functional system services registered 4,036,984 decrease compared to 2017, determined by diminished tariff approved by ANRE for such services (as per the table ANRE-approved tariffs for the studied periods shown previously).

Technological system service revenues

The revenues from technological system services have registered a increase in 2018 compared to 2017 in the amount of 55,166,650, mainly determined by the 1,87% increase of the electricity quantity delivered to consumers and by the rise of the average tariff approved by ANRE for these services (according to the table on the average tariffs approved by ANRE for the analyzed periods, presented above)

The income from the ancillary services gained in 2018 was lower with 40,228,545 compared with the expenditures on the purchase of ancillary services that were achieved. The loss was caused both by the decrease of the revenues from the technological system services due to the decrease of the tariff approved by ANRE starting with July 1, 2018 (from 12.06 lei / MWh to 10.44 lei / MWh), as well as by the increase of the expenses for the services of the technological system, in the conditions of increasing the acquisition price of SR (secondary reserve) and STR (slow tertiary reserve) on the competitive market and the increase of the electricity price at the national market.

This amount is diminishing the Company's gross profit registered on 31 December 2018.

Revenues on the balancing market

The income from the balancing market have registered an decrease in 2018 compared to 2017, with the amount of 400,748,066, determined by:

- The decreasing of the negative imbalance registered at the level of the suppliers of electricity on the balancing market, ie decreasing the imbalance between the notified net contractual position and the actually supplied energy in 2018 compared to 2017;
- high unpredictability and volatility degree of generation from renewable resources (especially wind);
- the development of hydraulicity;
- the manner in which contracting is performed on markets before the balancing market and little participation on the day-ahead market and intraday electricity market;

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

- the exceptional nature of the balancing market's evolution in January 2017 when significant increase of consumption imbalances were recorded on account of balancing responsible parties, determined by higher deficit price registered on the balancing market. As a result of Romania's and Europe's energy crisis, generated by very low temperatures compared to the climatic average of January, corroborated with the extended unavailability of important generating power plants, the electricity market in January 2017 was faced with a particular situation resulting in sudden increase of prices on the Day-Ahead Market, Intraday Market and Balancing Market. Thus in January 2017 revenues achieved on the balancing market amounted to 426,519,121 compared to January 2018 when revenues obtained from the balancing market were in sum of 40,929,040.

The balancing market is an activity with zero profit to the Company.

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

The system operating and balancing market expenses are as follows in 2018 and 2017:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Expenses on own technological consumption	252.675	206.992
Congestion expenses	8.218	241
Electricity consumption in ETG stations	17.235	14.411
Expenses regarding the functional system services	15.463	16.336
Expenses on Inter TSO Compensation (ITC)	15.281	19.937
Total operational expenses	<u>308.872</u>	<u>257.917</u>
Expenses with the technological system services	677.725	661.323
Balancing market expenses	903.865	1.304.613
Total	<u>1.890.463</u>	<u>2.223.853</u>

Expenses on own technological consumption

They represent expenses with electricity procurement from the free electric power market, namely the Centralised Bilateral Contracts Market (PCCB), Day-Ahead Market (PZU), Balancing Market (PE) and Intraday Market (PI) to cover one's own technological consumption (CPT) within RET.

In 2018 expenses with one's own technological consumption were higher by 45,683,152 compared to those registered in 2017, because higher electricity amounts were used in order to cover one's own technological consumption (losses) in the transmission network and because of higher average prices of electricity procurement necessary to cover CPT within RET.

Congestion expenses

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 2018, the expenses on congestions have been registered in the amount of 241,042, being lower than the ones registered in 2016, the latter amounting to 2,931,330.

In 2018 the registered congestion expenses in amount of 7,976,636 were higher than in 2017 with the amount of 7,976,636 as follows :

- in February congestion expenses in sum of 5,234,582 were registered, determined by bad weather conditions (storm, frost) in Dobrogea region, which triggered failure to the 400 kV OHL Constanta Nord – Tariverde. The line defect meant break up of the double insulator chain of phase R from tower 7 and the active conductor fell on ground. Under such circumstances in order to observe the N-1 safety principle during the accidental outage of the 400 kV OHL Constanta Nord – Tariverde, the wind power parks CEED of Dobrogea region, Section 6 and of Tulcea – Tariverde area were dispatched to reduce output below the notified capacity. The total amount of power reduced by congestion was of 19,766 MWh until the line was restored to operation;

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

- in April 2018 congestion expenses amounting to 154,595 were registered, determined by the compliance with N-1 safety principle when the 400 kV interconnection OHL Rosiori – Mukacevo was taken out of operation as scheduled;
- in July congestion expenses in sum of 3,448 were registered, determined by reduced overload of AT3 – 400 MVA, 400/220 kV Brazi Vest, in order to provide the N–1 safety principle since CECC Petrom operated at 738 MW, the 400 kV OHL Brazi Vest – Darste was taken out of operation as scheduled and the 400 kV OHL Brazi Vest – Domnesti tripped (AT3 – 400 MVA Brazi Vest was left the only path to discharge the output of TG1 and of TA CECC Petrom into the system, as they are connected at 400 kV);
- in September congestion expenses amounting to 609,824 lei were registered, determined by the provision of N–1 safety principle when the 400 kV OHL Rosiori – Mukacevo was taken out of operation according to schedule;
- in October congestion expenses in sum of 1,258,227 were registered, determined by the provision of N–1 safety principle in Section S4 upon scheduled taking out of operation of 400 kV OHL Rosiori – Mukacevo, upon request of the Ukrainian TSO and to provide the N–1 safety principle in Section S4 when the 400 kV OHL Iernut – Sibiu Sud was taken out of operation as scheduled;
- in November congestion expenses amounting to 957,002 were registered, determined by the provision of N–1 safety principle when the 110 kV OHL Medgidia Sud - Basarabi circuits 1 & 2 got unavailable, and by the provision of N–1 safety principle when the 400 kV OHL Iernut – Sibiu Sud was taken out of operation according to schedule.

Expenses regarding electricity consumption in RET substations

In view of providing electricity transmission in electric substations and operation of the National Power System under safe conditions, CNTEE Transelectrica SA has to procure electricity to cover the consumption related to auxiliary services in high voltage electric substations managed by the Company, namely the consumption of auxiliary services in the 81 electric substations, for each consumption place.

Such expenses increased 2,824,161 in 2018 compared to 2017, determined by rising prices of electricity in 2018.

Expenses regarding the functional system services

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

These expenditures registered a decrease in 2018 compared to the year 2017 determined mainly by the decrease in the expenditures on the balancing market and the day-ahead market regarding the unplanned electricity exchanges (exports) with the neighbouring countries connected to the NPS.

Expenses on Inter TSO Compensation (ITC)

ITC expenses, amounting to 15,280,521, represent the monthly payment obligations/rights of collection for each transmission system operator (TSO). They are established within the compensation / settlement mechanism for the effects of using the electricity transmission grid (RET) for transits of electricity between TSO operators from 35 countries that acceded to this mechanism of the ENTSO-E. In year 2018, these expenditures have decreased by 4,656,012 compared to 2017.

Expenses with the technological system services

The technological system services are purchased by the Company from producers in order to comply with the operational security limits of the NPS and of the quality of the electricity transmitted at the parameters required by the technical norms in force.

Such services are contracted as follows:

- in a regulatory manner, based on Government Decisions and Decisions of the National Energy Regulatory Authority (ANRE);
- through competitive mechanisms,

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

In 2018 technological system services were procured under regulated regime according to ANRE Decisions 906/2017 and 1001/1440/2018 (from Hidroelectrica SA), ANRE Decision 655/2018 (from Hunedoara SA), as well as according to HG 760/11.10.2017 by which the "Winter Program in the Energy Sector for Assuring the safety and stability of the NES" was approved.

The technological system services expenses registered an increase in 2018 compared to 2017 in the amount of 16.401.933, mainly due to the increase of prices for purchasing technological system services on the competitive market, consequence of the increase in the price of energy electricity on the national electricity market.

An important influence in the increase of the purchasing cost of TSS on the competitive market was also the extremely high level of concentration of the technological system services market by service type (secondary reserve, fast tertiary reserve, slow tertiary reserve). This extreme concentration of the market has created favorable conditions for the manifestation and exercise of power on the market, granted to certain participants by their dominant positions held (Hidroelectrica SA for SR and FTR, Romgaz for STR).

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

Balancing market expenses

The expenses from 2018 related to the balancing market amounted to 903,864,423 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.

13. OTHER OPERATING EXPENSES

	December 31, 2018	December 31, 2017
Other expenses on third party services	34.824	22.694
Postal and telecommunication expenses	1.292	1.592
Rent	10.854	11.062
Operating (net) operating expenses on depreciation allowances for current assets	2.930	12.712
Other expenses	39.735	99.066
Total	89.701	147.127

14. NET FINANCIAL RESULT

	December 31, 2018	December 31, 2017
Interest income	9.962	5.664
Revenues from foreign currency exchange	6.003	11.501
Other financial incomes	55	64
Total financial income	16.020	17.229
Interest expenses	(19.828)	(21.623)
Expenses from foreign currency exchange	(5.921)	(19.231)
Interest expenses	0	0
Total financial expenses	(25.749)	40.854
Net financial result	(9.729)	(23.625)

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

As at 31 December 2018, the Company recorded a net financial result (loss) of 8.253.506, down 12.866.732 less than in 2017. This was mainly influenced by the recording of some expenses during the analyzed period net with 6,589,526 lower interest rates as compared to 2017, as well as the exchange rate of the national currency against the foreign currencies in which the Company has borrowed bank loans for financing investment programs (Euro, Dollar).

The average exchange rate of the national currency registered in 2018, compared with the one registered in 2017 is as follows:

Currency	2018	2017
Lei / Euro	4,6534	4,5681
Lei / Dolar SUA	3,9416	4,0525

15. THE LEGISLATIVE AND FISCAL FRAMEWORK

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

16. COMMITMENTS AND CONTINGENCIES

i) Commitments

As of December 31st, 2018 and December 31st, 2017, the Company had commitments amounting to 503,690,103 and 1,121,769,861 mainly representing ongoing contracts related to the investment program for the modernization and upgrading of the transmission grid.

ii) Land plots used by the Group

As per the Company policy, the financial statements include only the value of the land for which certificates authenticating the ownership rights have been obtained as of the date of the financial statements.

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

As of the date of the issuance of these financial statements, the external legal opinion received by the management of the Company following the acquisition of legal consultancy, assistance and/or representation services needed for the share capital increase states that in the absence of other changes or clarifications in the legal framework, the general legal provisions applicable to the companies are contradictory with regards to the increase provisions for companies regulated by the privatization law. Taking into consideration the steps undertaken by the Company for the share capital increase by the value of the land plots for which certificates authenticating the ownership rights have been obtained, O.P.S.P.I. has communicated to the Company that in their opinion, the share capital increase should be performed after the changes in the legal framework.

The General Assembly of Shareholders approved, by Decision no. 16/21.12.2018 the principle increase of CNTEE Transelectrica SA's share capital by means of in-kind contribution of a number of 17 lands, which the Company obtained ownership certificates for; approval was given for submission to the Office of the Trade Register from Bucharest Tribunal of the proposal to appoint JPA Audit & Consultance SRL as ANEVAR licensed valuator with a view to value the in-kind contribution that was proposed for share capital increase, in accordance with legal terms.

iii) Pending disputes

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.

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

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:

- Pending with the Mehedinti Court – Civil Section II, Administrative and Fiscal Litigation Section, the file no. 3616/101/2014 was recorded, involving the "claims in the amount of 1,090,831.70, counter value of invoice no. 1300215/31.12.2013", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By civil sentence no. 127 ruled on October 10th, 2014, the Mehedinti Court admitted the request lodged by plaintiff RAAN and ordered CNTEE Transelectrica SA to pay the amount of 1,090,831.70 lei, the counter value of invoice no. 1300215/31.12.2013.

The amount requested for payment represents penalties calculated by RAAN for the bonus due under the support scheme and withheld by the Company, in its capacity of Administrator of the support scheme that applied the provisions of article 17 para 5 from Order 116/2013 of ANRE president (see Note 9). The amount was enforced by RAAN on June 15th, 2016, as per the Decision issued by the Bankruptcy Receiver Office Ailiesei si Guta in the enforcement file no. 12105/2016.

Civil ruling 843/2015 of Appeal Court Craiova denied as without interest the appeal filed by CNTEE Transelectrica SA against civil sentence 127/10.10.2014.

Against the decision no. 843/November 5, 2015 of the Court of Appeal Craiova - Section II Civil, pronounced in the public hearing from November 5, 2015, in file no. 3616/101/2014, as well as 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 decided to reverse decision no. 843/2015 and to remand the case for retrial to the same court, the Court of Appeal Craiova.

By decision no. 124/2017, the Court of Appeal Craiova admitted the appeal declared by Transelectrica and remanded sentence no. 127/2014 pronounced by the Mehedinti Court, and the case was remanded for retrial to the Bucharest Court – Section VI Civil. On the docket of the Bucharest Court, the case was registered under no. 40444/3/2017 who, via civil sentence no. 4406/04.12.2017, admitted the request lodged by RAAN and ordered Transelectrica to pay the amount of 1,090,831.70 lei. The sentence was appealed. The resolution of the Court of Appeal of Bucharest: Denies the appeal as groundless. Final. Ruled in open court on December 13, 2018."

Document: Ruling 535/2018 / 13.12.2018

In 2014-2015 the Company withheld the bonus owed to RAAN under the support scheme according to the provisions of ANRE regulations, namely article 17 para 5 of Order 116/2013 of the ANRE president.

Under these conditions, RAAN calculated penalties for late payment of the due cogeneration bonus in the amount of 3,496,914, withheld from the payment by the Company in the account of non-cashed receivables. The amount of 3,496,914 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 11,637,440 ", 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 11,637,439.66 lei.

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 of territorial incompetence. Declines ruling competency in favour of Bucharest Tribunal, Civil Section VI. No appeal." The file was

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

registered to the Bucharest Court - Civil Section VI, under no. 24206 / 3 / 2015.

The claimant RAAN expressed request to change the quota of claimed rights, asking to oblige Transelectrica SA to pay the indexed amount of 17,805,680.

On November 3rd, 2015, the Bucharest Court, Civil Section VI 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 17,805,680.lei, representing the equivalent value of the bonus and penalties. Dismisses the application for granting legal expenses, lodged by the plaintiff, as ill-founded. The judgment can be appealed within 30 days from the communication. The appeal will be submitted to Bucharest Tribunal, Civil Section VI.

The ruling was communicated on July 4th, 2016, according to the registration entry stamp of the correspondence with Transelectrica SA. The ruling was appealed. The hearing conclusion of 12.01.2017 pronounced under file 24206/3/2015, the Appeal Court Bucharest decided suspending appeal judgment until final settlement of file 9089/101/2013/a152 on the docket of Mehedinti Tribunal, according to article 413 para 1 pt. 1 NCPC. Appeal during the entire 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 plaintiff, they asked Transelectrica SA to pay the amount of 10,274,679.

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 to suspend the hearing of the case, considering that its settlement depends on the decision to be given in file no. 9089/101/2013/a152 pending with the Court of Mehedinti.

- Pending with the Bucharest Court – Section VI Civil the file no. 3694/3/2016 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 plaintiff, they asked Transelectrica SA to pay the amount of 15,698,722.

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 on the docket of the High Court of Cassation and Justice, involving appeal – annulment of the Decision of the ANRE Chairman no. 743/2014. Appeal during the entire suspension. The case was resumed after the final settlement of file no. 3014/2/2014, but it was suspended again on 31.01.2019 until file no. 9089/101/2013/a152 pending with the Court of Mehedinti was settled.

- 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 86,513,431", 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 86,513,431.

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: "Based on art. 413 pt. 1 of the Civil Procedure Code, decides suspending the case until settlement of file no. 3014/2/2014 pending with the High Court of Cassation and Justice. Appeal during the entire suspension. Pronounced today, May 19th, 2016, in open court." Hearing scheduled for 06.06.2019.

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

• 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.)

Sentence 387/20.03.2014 of Mehedinti Tribunal confirmed the reorganisation plan of debtor Regia Autonoma Pentru Activitati Nucleare, proposed by the judiciary administrator Tudor&Asociatii SPRL and voted by the General Assembly of Creditors according to the minutes of 28.02.2014.

In the intermediate ruling 10/28.01.2016, pronounced by Mehedinti Tribunal, Section II Civil of Administrative and Fiscal Disputes the syndic judge ordered opening the bankruptcy procedure for the debtor based on art. 107 para. 1 let. C of Law 85/2006, as well as dissolving the debtor and withdrawing its administration right.

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.

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 11,264,777 lei under the category of receivables resulting from the continuation of the debtor's activity, the amount requested by our company being equal to 89,360,986 lei, our amount of 78,096,208.76 lei 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 78,096,209 lei 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. An objection was filed against the Additional Receivables Table. The Mehedinti Court approved the evidence with the audit expertise. The parties expressed objections to the accounting expertise report, which were admitted by the instance that set the hearing term on 22.02.2018. On the 14.06.2018 term the case judgment was suspended until settlement of file 3014/2/2014 pending with the High Court for Cassation and Justice. Hearing scheduled for: 06.06.2019.

• 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 20.01.2016 hearing the court deferred the case to enable the designated chartered accountant to express his opinion about the defendant's objections to the expertise report and the technical expert to perform his 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.

On 13.06.2018 the following settlement was pronounced:

Settlement type: Partly admits the request.

Settlement in brief: Partly admits the plaintiff's action. Partly cancels conclusion 7/20.02.2014, ruling 37/9.12.2013 and the audit report 35521/6.11.2012 issued by the defendant as regards the measures provided under the fore-mentioned decision in items I.1, I.3, I.6, I.8, I.11, II.14, II, 15, II.17, II.18, II.20, II.21, II.22 and partially the measure of item II.13 in the sense of removing the phrase „including what has been found about the invoices issued by Florea Administrare Imobiliara SRL”. For the remainder, the court rejects the request of the plaintiff as groundless. Approves the electricity technical expertise report drafted by Toaxen Vasile as expert. Compels the defendant to pay 121,375 Lei law suit expenses to the claimant (partially expert fees and judiciary stamp tax). Appeal right within 15 days from notification. The appeal shall be lodged before the Bucharest Court of Appeal – Section VIII, Administrative and Fiscal Litigation Section. Ruled in open court this 13th day of June, 2018.

Document: Ruling 2771/2018, 13.06.2018. Transelectrica filed an appeal, which was rejected by ICCJ as ill-founded by decision no. 145/28.01.2016.

• 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.

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

On 26.06.2014 ANRE Order 51 was issued, published in Romania's Official Gazette no. 474/27.06.2014, approving the average tariff for transmission services, the tariff for system services and the zone tariffs of transmission services used by the National Power Grid Company Transelectrica SA and cancelling annex 1 to Order 96/2013 of ANRE president approving the average tariff for transmission services, the tariff for system services and the zone tariffs of transmission services as well as the tariffs for reactive electric power, applied by economic operators of 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%.

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 expertise completion term was set on 22 January 2019.

The dispute did not impact the relationship with ANRE or the Company's financial results. Hearing scheduled for: 14.05.2019.

- 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 EUR (2,585,162 lei 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 EUR.

Also, the subsidiary SC OPCOM SA requested the court to order the Company to pay the amount of 84,867.67 lei as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 37,828. The action filed by the subsidiary SC OPCOM SA is subject of the file no. 40814/3/2014 pending with the Bucharest Court, Section VI Civil, involving claims, litigation with professionals. CNTEE Transelectrica SA has lodged a 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 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 de day of the actual payment. Orders the defendant to pay the plaintiff the amount of 37,828 lei, as legal expenses. Appeal right within 30 days from notification. The appeal shall be lodged at the Bucharest Court - Civil Section VI."

Against sentence no. 4275/2015, pronounced in the afore mentioned 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 16,129, representing legal stamp duty. With appeal within 30 days from notification. Ruled in open court today, October 10th, 2016. Document: Ruling 1517/2016 / 10.10.2016

OPCOM S.A. filed a second appeal. The High Court of Cassation and Justice decided the following: Grants, in principle, the appellant-plaintiff Operatorul Pieței de Energie Electrică și Gaze Naturale – OPCOM S.A.

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

motion against decision no. 1517/10.10.2016, ruled by the Bucharest Court of Appeal – Section V Civil. Sets the hearing for solving the appeal on March 13th, 2018. The parties will be summoned. Ruled in open court today, December 5th, 2017.

At the hearing from March 13th, 2018, the court granted the appellant-plaintiff Operatorul Pieței de Energie Electrică și Gaze Naturale – OPCOM S.A. motion against decision no. 1517/10.10.2016, ruled by the Bucharest Court of Appeal – Civil Section V. Invalidates the contested decision and refers the case to the court of appeal. Final.

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

On the 01.10.2018 hearing term the Appeal Court Bucharest decided denying the appeal as groundless and compelling the respondent in appeal-defendant to pay 26,070.31 Ron as law suit expenses to the respondent in appeal-claimant. Appeal right within 30 days from notification.

The Company registered in 2014 a provision of 2,670,029 Lei for the dispute with Subsidiary OPCOM SA.

• Through the suit filed by Conaid Company SRL, registered with the Court of Bucharest, in file no. 5302/2/2013, the plaintiff asked that the court should establish:

a) the court should establish the unsupported refusal of Transelectrica SA to enter and sign an addendum to Contract no. C154/27.04.2012 for the connection to the CNTEE of CEE 102 MW Garana and CEE 147 MW Garana in the area of Brebu Nou, Garana, Slatina and Timis, Caras Severin county, by establishing the 400/110 kV Garana power station and the 400 kV DC OHL for the connection of the 400/110 kV Garana power station in an input-output system to the new 400 kV Portile de Fier - Resita OHL,

b) that Transelectrica should be compelled to enter the addendum to the contract, including the changes related to the new technical solution, based on CTES approval no. 422/21/12/2012

c) that the obligation regarding suspensive conditions cannot be classified as met by the plaintiff for the exclusive fault of the defendant

d) the court should establish the unsupported refusal of Transelectrica SA to enter and sign a new Contract for the connection to the NPG of CEE 102 MW Garana and CEE 147 MW Garana in the area of Brebu Nou, Garana, Slatina and Timis, Caras Severin county, by establishing the 400/110 kV Garana power station and the 400 kV DC OHL for the connection of the 400/110 kV Garana power station in an input-output system to the new 400 kV Portile de Fier - Resita OHL, and decide to compel us to enter the new connection contract.

e) the Court should compel Transelectrica SA "to pay the sums of 722,756,000 EUR, representing the profit not achieved based on the business plan, under the reserve of increase, and 17,419,508.07 RON, representing actual expenses registered in account books, under the reserve of increase, representing the damage caused to the plaintiff company"

Through the ruling of the Court of Appeal of Bucharest - Administrative and Fiscal Section VIII, given in public court on 18.02.2014, in file no. 5302/2/2013, the competent court decided to reject as ill-founded the exception of the material incompetence of the court, invoked by our company.

Through the ruling of the Court of Appeal of Bucharest - Administrative and Fiscal Section VIII, given in public court on 25.03.2014, in file no. 5302/2/2013, the competent court decided to reject as ill-founded the exception of non-admissible action, invoked by our company.

Through the ruling of the Bucharest Court of Appeal - Administrative and Fiscal Section VIII, given in public court on 20.05.2014, in file no. 5302/2/2013, the competent court decided to separate the demand aimed at compelling the defendants to pay indemnities and to set up a new file, no. 3372/2/2014, registered with the Court of Appeal of Bucharest - Administrative and Fiscal Section VIII, where, through the ruling given in public court on 24.06.2014, the court decided the following solution: "In accordance with article 413 par 1 item 1 from the Civil procedural code, it suspends judging the case. Appeal during the entire suspension. The appeal is submitted to the Court of Appeal Bucharest. Ruled in open court on June 24, 2014."

Through civil ruling no. 1866/11.06.2014 of the Court of Appeal of Bucharest - Administrative and Fiscal Section VIII, given in public court on 11.06.2014, the action filed by S.C. CONAID COMPANY S.R.L. was rejected as ill-founded, considering that the exceptions invoked by the defendants Transelectrica SA in the appeal were rejected through the rulings of 18.02.2014 and 25.03.2014, for the reasons therein shown.

Transelectrica SA filed an appeal against the sentence regarding the rejection of exceptions and against the meeting rulings of 18.02.2014 and 25.03.2014.

Both the plaintiff and the plaintiff's representative filed an appeal against the ruling.

The file was registered with the High Court for Cassation and Justice, pending on 17.06.2016, with settlement being postponed for 29.06.2016, when Decision no. 2148/2016 was given, as the High Court for Cassation and Justice decided as follows: "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

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

February 18th, 2014 and the civil sentence no. 1866 of June 11th, 2014, pronounced by the Court of Appeal Bucharest – Administrative and Fiscal Section VIII. Partially invalidates the contested protocol and judgment and refers the case to the Bucharest Court – Civil Section VI, 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 appeals of the plaintiff Conaid Company S.R.L. via insolvency administrator RVA Insolvency Specialists SPRL and the intervener Duro Felguera S.A. against the civil sentence no. 1866 of June 11th, 2014 pronounced by the Bucharest Court of Appeal – Administrative and Fiscal Section VIII. Rejects the 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 - Administrative and Fiscal Section VIII. Final. Ruled in open court on June 29, 2016."

The file was re-registered with the Court of Bucharest under no. 12107/3/2017.

The Court of Bucharest had the action pending on 09.11.2017, postponing the decision for 23.11.2017, when ruling no. 4364/23.11.2017 was given, as follows: "Admits the exception of inadmissibility. Dismisses the application as inadmissible. Rejects the application for leave to intervene in the applicant's interest. With right of appeal within 30 days from notification. Such appeal is submitted to the Court of Bucharest, Civil Section VI. Sent to the parties via registry today, November 23rd, 2017."

No appeal filed by the plaintiff has been registered so far.

La data de 02.11.2018, pe rolul Tribunalului Bucuresti – Sectia a VI-a civila – a fost inregistrata o noua cerere de chemare în judecată formulata de Conaid Company SRL, in dosarul nr. 36755/3/2018, prin care reclamanta a solicitat instanței sa dispuna obligarea Transelectrica SA la „repararea prejudiciului cauzat reclamantei, ca urmare a neexecutarii culpabile a obligatiilor de catre parata, in cuantum de 17.216.093,43 lei, constand in paguba efectiv suferita si beneficiul nerealizat, estimat provizoriu la 100.000 euro... avand in vedere refuzul nejustificat al Transelectrica SA de a incheia si semna un act additional la Contractul nr.C154/27.04.2012, si in situatia in care instanta va considera ca, din punct de vedere formal, nu poate fi considerata indeplinita de catre reclamanta obligatia vizand conditiile suspensive, aceasta neexecutare se datoreaza culpei exclusive a Transelectrica SA, parata impiedicand indeplinirea conditiilor”.

Termen de judecata: 09.04.2019.

On 02.11.2018, the Court of Bucharest - Civil Section VI registered a new lawsuit filed by Conaid Company SRL, in file no. 36755/3/2018, by which the plaintiff asked that the court should compel Transelectrica SA to "repair the damages caused to the plaintiff, pursuant to the defendant's failure to meet its obligations, of 17,216,093.43 RON, consisting of an actually incurred damage and the non-achieved benefits, provisionally estimated at 100,000 EUR (...) considering the unjustified refusal of Transelectrica SA to enter and sign an addendum to Contract no. C154/27.04.2012 and when the Court considers that, from a formal point of view, it cannot be considered that the plaintiff has met its obligation regarding suspensive conditions, this failure to perform is due to the exclusive fault of Transelectrica SA, since the plaintiff prevents the fulfilment of requirements.

Hearing scheduled for: 09.04.2019.

- Following a verification conducted in 2017, 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. CNTEE Transelectrica SA filed a total of 8 objections against the measures ruled by the Romanian Court of Auditors (CCR) via Decision no. 8/27.06.2017 requesting the annulment thereof, as well as the Decision no. 77/03.08.2017 registered with the Company's secretariat under no. 29117/08.08.2017, as well as the Control Report no. 19211/26.05.2017. Contestations are pending with the Appeal Court Bucharest and the High Court of Cassation and Justice.

- Case file no. 47332/3/2017 pending with the Bucharest Court - Section VI Civil, by which the company FF Wind Energy International SRL requests the following against CNTEE Transelectrica SA: - cancelling the one-sided termination statement of the RET connection contract 85/14.03.2011 issued on 02.03.2016 under no. 8295, - compelling the Company to pay 32,777,167.35 Lei as prejudice after contract termination and 45,000,000 Euro, representing the devaluation amount of Co. FF Wind Energy International SRL by preventing it to achieve its purpose. Status of the file: in preliminary proceedings for notification of the action and filing statement of defence.

Settlement in brief: Rejects the law suit, as stipulated, classifying it as ill-founded. Acknowledges the claimant has not asked for law suit expenses. Appeal right within 30 days from notification. In accordance with article 425 para 3 and of article 471 para 1 from the Civil procedural code, the appeal and the appeal reasons are submitted to Bucharest Tribunal, Civil Section VI. Sent to the parties via registry today, December 28, 2018. Document: Ruling 3891/2018, 28.12.2018.

- At the offices of Transelectrica SA, a general fiscal inspection took place targeting the interval December 2005 – December 2010. Such general fiscal audit began on 14.12.2011 and ended on 26.06.2017, date of the

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

final discussion with Transelectrica SA.

ANAF – DGAMC established additional fiscal obligations payable by the Company, namely income tax and VAT, as well as accessory fiscal liabilities (interest/delay indexations and penalties) with respect to technological system services (STS) invoiced by energy suppliers, considered non-deductible after the fiscal audit.

In accordance with the taxation decision F-MC 439/30.06.2017, in total sum of 99,013,399 Lei, ANAF – DGAMC established additional fiscal liabilities payable by the Company, amounting to 35,105,092 Lei, as well as accessory fiscal ones (interest/delay indexations and penalties), amounting to 63,908,307 Lei.

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

- Corporate tax amounting to 13,726,800 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;

On the 30.04.2014 term the Appeal Court Bucharest, Administrative and Fiscal Section VIII (Ruling 1356/2014) under file 6657/2/2012 denied the request of "claimant CNTEE Transelectrica SA (Appeal against ANAF's Fiscal administrative act)". On March 1, 2017, the High Court of Cassation and Justice ordered by decision no. 779 the following: "denies the inadmissibility exception of the contestation for cancellation filed by contestor Transelectrica SA, invoked by defence by the respondent in appeal, the General Directorate for Large Tax-payers Administration. Dismisses the appeal for cancellation formulated by the appellant Transelectrica SA against civil decision no. 1945 of 16 June 2016 of the High Court of Cassation and Justice - Administrative and Tax Appeals Division, pronounced in file no. 6657/2/2012, as unfounded. Irrevocable".

- Corporate tax amounting to 4,795,483 and collected VAT amounting to 5,694,636 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;

- Corporate tax amounting to 4,320,277 and collected VAT amounting to 5,130,329, as well as accessories relating to expenses with technological system services invoiced by producers in 01.01.2007 - 31.12.2010 and according to which the Company issued penalty invoices calculated by applying 200% over the VAT-free unit price, multiplied with the quantity of unrealised services. According to the findings of the fiscal audit team, starting from the penalty invoices issued non-deductible expenses were established for unrealised / not provided technological system services, which generate additional payable income tax, as well as additional payable VAT for the technological system services invoiced by the electricity suppliers but not provided / achieved.

The Company filed an appeal against the Taxation decision F-MC 439/30.06.2017 within the legal term according to OG 92/2003 on the Fiscal procedural code. ANAF issued the enforcement title 13540/22.08.2017 based on which the additional payment obligations established under the Taxation decision F-MC 439/30.06.2017 were executed.

The Company requested cancelling the enforcement title 13540/22.08.2017 from the Appeal Court in file 7141/2/2017. Settlement in brief: Admits the exception of the material incompetence of the Appeal Court Bucharest, SCAF. Declines the case settlement competence in favour of Law Court of Bucharest District 1. No appeal. Ruled in open court today, February 8th, 2018.

Document: Ruling 478/2018, 08.02.2018.

After declining the jurisdiction, pending with the 1st District Court is the casefile no. 8993/299/2018 through which the Company disputed the enforcement started on the grounds of enforcement order no. 13540/22.08.2017 which is based on the Notice of assessment no. F-MC 439/30.06.2017.

Settlement in brief: Admits the request of judgment suspension filed by the appellant. On the grounds of Article 413 (1) (1) of the Civil Procedure Code, judgement is suspended until the final settlement of case file no. 1802/2/2018, pending with the Court of Appeal Bucharest, Section VIII Administrative and Fiscal Litigation. Appeal right during the entire suspension; appeal to be submitted to the Law Court of Bucharest 1. Ruled in open court. Document: Conclusion - Suspension 17.04.2018

Pending with the Court of Appeal is the case file no. 1802/2/2018 through which the Company contested the fiscal administrative document - Decision no. f-mc 439/30.06.2017. On the session term 06.11.2018 the court admitted the administration of the expertise evidence, in the accounting – fiscal specific domain. Hearing scheduled for: 14.05.2019.

Upon contestation by the Company of the fiscal administrative document - Decision no. f-mc 439/30.06.2017, ANAF notified the Company of Decision no. 122/13.03.2018 through it rejects, as

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

ungrounded, the contestation filed by CNTEE Transelectrica SA; the decision was received on March 16th, 2018, after filing the application for summons which is subject to casefile no. 1802/2/2018.

• Through its summons the claimant Resita City requests that the defendant CNTEE Transelectrica SA should be compelled to pay the following amounts:

- 2,129,765.86 Lei, representing rent for the land area temporarily taken from the forestry fund in 2015;
- 2,129,765.86 Lei, representing land rent for 2016;
- 2,129,765.86 Lei, representing land rent for 2018;
- penalty legal interest from due date until actual payment.
- legal expenses

Case file no. 2494/115/2018* is pending with the Caras Severin Court

Settlement: Admits the exception of territorial incompetence of Caras Severin Tribunal. Declines the competence to settle the request expressed by claimant Resita City – by its mayor in contradiction with defendant CNTEE Transelectrica SA in favour of Bucharest Tribunal. No appeal according to art. 132 para. 3 of the Civil procedural code. Pronounced at public hearing on 11 March 2019. Document: Ruling 313/2019.

• In its lawsuit, the plaintiff Regia Nationala a Padurilor Romsilva - Caras Severin Forest Management Department asks that the defendant CNTEE Transelectrica SA should be compelled to pay the following amounts:

- 2,433,608.52 annual lease for the temporary occupation of the land in the national forest fund + late payment penalties from the due date of the lease 31.01.2018 until actual and full payment;
- 304,298.47, equivalent value of the final disposal of the land from the national forest fund, equivalent value of the loss in the enhanced exploitation of wood + late payment penalties from 10.05.2015 until actual and full payment;

The case was seen in file 2434/115/2018, pending with the Court of Caras Severin.

On November 29, 2018, the Court of Caras Severin pronounced the sentence no. 3326/2018, ordering the following: "To admit the exception for territorial non-competence of the Court of Caras Severin. To refer the competence for solving the demand filed by the plaintiff RNP - Romsilva, Caras Severin Forest Management Department against the defendants National Power Grid Company Transelectrica SA and National Power Grid Company Transelectrica SA - Timisoara Transmission Branch. Final. Ruled in open court on November 29, 2018."

The file was registered with the Court of Bucharest - Civil Section IV, no. 2434/115/2018, which, on 22.01.2019, pronounced the following settlement: "To admit the exception of functional non-competence. The file should be submitted to Civil Section VI of the Bucharest Court, for settlement. No appeal. Ruled in open court on January 22, 2019."

The file was re-registered with the Court of Bucharest - Civil Section VI, no. 2434/115/2018*, which, on 13.02.2019, pronounced the following settlement: "To admit the exception of the fundamental non-competence of the Court of Bucharest - Civil Section VI, invoked automatically. To decline jurisdiction in favour of Bucharest Court, Civil Section IV, to which the file shall be immediately submitted. Ascertains a negative conflict of competence, suspends the judgment of the case and submits the file to the Court of Appeal of Bucharest, for settlement. No appeal. Ruled in open court on February 13, 2019."

• In her lawsuit, the plaintiff Pop Lucia asks that the defendant CNTEE Transelectrica SA should be compelled to pay damages for land expropriation based on Law no. 33/1994.

On October 29, 2012, ICCJ: Decision no. 6555: To admit the appeals filed by the National Power Grid Company Transelectrica S.A. Bucharest through CNTEE Transelectrica S.A., Cluj Transport Branch and the defendant Pop Lucia against the civil decision no. 219/2011-A of November 22, 2011 of the Court of Appeal of Oradea, Civil Section I. To dispose of the appealed decision and send the case to the same court, for reconsideration purposes. Irrevocable.

Term: 19.09.2018

Settlement in brief: Admits the civil appeal filed by the appellant POP LUCIA, against the defendant CNTEE Transelectrica SA Bucharest through CNTEE Transelectrica SA, Cluj Transportation Branch, on behalf of the Romanian state, and the Prosecutor's Office attached to the Court of Appeal of Oradea, against the civil sentence no. 240/C of June 19, 2008 given by the Court of Bihor, which it partially changes, i.e. It increases the amount of indemnities awarded by the first court, from 25,000 EUR to 48,914 EUR. It maintains the other provisions of the ruling. It compels the defendant CNTEE Transelectrica SA Bucharest, through CNTEE Transelectrica SA, Cluj Transportation Branch, to pay 2,500 RON to the appellant POP LUCIA as legal expenses. It rejects the appeal filed by CNTEE Transelectrica SA Bucharest through CNTEE Transelectrica SA, Cluj Transportation Branch, against the same ruling. Final. Appeal within 15 days from notification. Ruled in open court on 03.10.2018. Document: Ruling 903/2018, 03.10.2018.

On 20.02.2019, the High Court for Cassation and Justice pronounced ruling no. 327/20.02.2019, deciding as follows: "To reject as unfounded the appeal filed by the National Power Grid Company Transelectrica S.A. Bucharest through CNTEE Transelectrica S.A., Cluj Transport Branch on behalf of the Romanian state against the Decision no. 903-A of October 3, 2018 of the Court of Appeal of Oradea, Civil Section I. To reject the request of the defendant Pop Lucia for the reimbursement of legal expenses. Irrevocable."

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

- By appealing the decision of the judicial administrator to refuse to answer the payment request subject to file no. 6642/3/2018 registered with the Court of Bucharest, Transelectrica asked that Electrocentrale Bucuresti SA, a debtor under the insolvency procedure, should be compelled to pay 56,680,387 RON, i.e. the equivalent value of the over-compensation, based on the Decision of the ANRE President no. 476/30.03.2017. Settlement in brief: It rejects as unfounded the exception for the late appeal invoked by the defendant ELCEN in the appeal. It admits the appeal filed against the measure of the judicial administrator. It compels the debtor to pay the appellant the amount of 56,680,387 RON, i.e. the non-paid difference for the Overcompensation decision no. 476/30.03.2017 and the invoice series TEL17COG no. 17948/30.03.2017. It admits the request that the debtor should be compelled to pay legal expenses. It compels the debtor to pay the appellant 2500 RON as legal expenses, representing a stamp fee and a provisional expertise fee. Appeal right within 7 days from notification. Appeal to be submitted to Court of Bucharest - Civil Section VII. Ruled in open court on December 21, 2018. Document: Ruling 7834/2018, 21.12.2018.

Also, 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, CET Iasi, CET Bacau, CET Braila, CET Govora, CET Brasov, Elsaco Energy SRL, Elsaco Esco, Arelco Power SRL, Arelco Energy SRL, Inversolar Energy SA, Opcom, etc.). The company recorded adjustments for value losses for the customers and other receivables in litigation and for the customers in bankruptcy. At the same time, the Company is also involved in litigations against former Directorate and Board of Supervisors members, regarding the mandate agreements concluded between the Company and themselves.

The management of the Company considers that probably no resource output will be necessary to settle ongoing disputes. 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.

Additionally, there are no other litigation in progress that, either by nature or by their value, makes it necessary to present significant active or binding contingencies for the Company's activity.

The Company is also involved in:

I. Litigations with the subsidiary SMART SA

- Case file no. 3269/3/2015 registered with Bucharest Tribunal, Section VI Civil, renumbered 1015/2/2018 with the Court of Appeal Bucharest, Case file subject: Compelling SMART SA to pay 1,841 , VAT included and the sum of 232 as accessories – representing the reduced value of our patrimony by the defendant's violating the provisions of contracts C, 43/2005 and C,237/2010, Case file stage: On the hearing date 11,10,2017 Bucharest Tribunal pronounced civil ruling 3592/11,10,2017, whereby it denied as inadmissible the action filed by CNTEE Transelectrica SA in contradiction with the Company of Maintenance Services to the Electricity Transmission Grid SMART SA, On 04.12.2017 CNTEE Transelectrica SA filed appeal against civil ruling 3592/2017 pronounced by Bucharest Tribunal on 11.10.2017, Such appeal is included in file 1015/2/2018 on the docket of the Appeal Court Bucharest, with hearing term set on 07.05.2018
- Case file no. 40958/3/2016 registered with Bucharest Tribunal, Section VI Civil Case file subject: Compelling Company SMART SA to pay 2,797 , VAT included + 1,212 accessories calculated to the amount of 2,872 Smart has misunderstood the sum of 2,871,823,43 Lei represented accessories (interest rates). File stage: On the hearing date 07.06.2017 the instance in accordance with article 413 para 1 pt, 1 NCPC suspended judging the case until the final settlement of file 1658/3/2014 on the docket of the Appeal Court Bucharest in contradiction with the Court of Accounts, Appeal right during the entire suspension period. Remarks about the circumstances when such action was initiated Item 3 from Ruling 37/2013 of the Court of Accounts retained the following: "Making undue payments in the estimated sum of 314 for deforestation services provided by the same provider at higher tariffs as well as for services provided on CN TRANSELECTRICA SA NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (All amounts are in "thousand LEI", unless stated otherwise) 74 26. COMMITMENTS AND CONTINGENCIES (continued) the same surfaces" (pages 3-6 of Ruling 37/2013)
- Case file no. **48509/3/2017** registered with Bucharest Court, Civil Section VI Case file object:

CNTEE Transelectrica SA requests by court action to have SMART SA compelled to:

a) Return to our company the amount of 7,652 where VAT is to be added, as prejudice incurred by our company as a consequence of the defendant's enrichment with no just cause, in the first place, and as undue payment, in the second place;

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

b) Compelling the defendant to pay the non-achieved benefits associated to the amount paid under the enrichment title without just cause, in the main, calculated from the date when the subscribed made the undue payments to the defendant until the date when the law court was notified, in quantum of 2,773, as well as compelling the defendant to further pay the non-achieved benefits until the actual return date of the amount representing the principal debt by the defendant,

Case file stage:: On 12.03.2018 we were notified the appeal filed by SMART which we answered on 22.03.2018, and the first hearing term is to be set later.

Settlement in brief: Based on art. 413 paragraph 1 point 1 Civil Procedure Code orders the suspension of the case pending the final settlement of file no.6577/2/2017 on the dockets of CAB - Section II Administrative and Fiscal Contentious Division. With right of appeal during the period of suspension, the appeal must be filed with the Bucharest Court Section VI. Ruled in public hearing of 24.04.2018. Document: Hearing protocol – Suspension 24.04.2018

II. Litigations with the subsidiary Teletrans SA

- Case file no. **20223/3/2017** registered with Bucharest Court, Civil Section VI Case file object:

Teletrans SA requests compelling CNTEE Transelectrica SA to pay 4,635 , as value of the performance bond constituted as per contract C243/2010, to which the amount of 293 is added, legal interest calculated on the maturity date until law suit opening,

Case file stage:: At the hearing of 31.05.2017, the application was rejected as unfounded. Admits the case; appeal within 30 days of communication. Appeal will be submitted to Bucharest Court, Civil Section VI. Decision 1505/18.05.2018 not communicated.

- Case file no. **16216/3/2017** registered with Bucharest Court, Civil Section VI Case file object:

By the for legal action, Teletrans S.A. requests the court to:

- Ascertain the services under contract 03/2007 have been fully provided, as added;
- In subsidiary to ascertain the services under contract 03/2007 have been provided and partially accepted, as it has been added;
- Oblige Transelectrica to pay 4,649 , to which VAT of 883 is added, representing the amounts of invoices 115/2017, 123/2017 up to 143/2017;
- Oblige Transelectrica to pay 214,355,40 Euro to which VAT is added, at the exchange rate on the invoice issuance dates, representing the value of services provided and partially accepted for the contractual interval May 2014 – November 2016, "in subsidiary if admitted the second subject of the request not the first subject of the request";

Case file stage: in the hearing of 10.12.2018, in view of settling of the litigation amicably, the case is postponed. Hearing 25.02.2019.

Guarantees

As of December 31st, 2018 and December 31st, 2017, the guarantees are presented as follows:

	December 31, 2018	December 31, 2017
Guarantees granted, of which:	278.850	381.753
- letters of guarantee issued – production	51.330	44.554
- letters of guarantee issued – investments	123.186	183.962
- other guarantees granted	104.334	153.237
Guarantees received, of which:	579.809	497.216
- letters of guarantee received – production	267.635	184.226
- letters of guarantee received – investments	263.085	264.729
- other guarantees received	49.089	48.261

Guarantees granted

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

In accordance with the License no. 161/2000 updated by ANRE Decision no. 802/18.05.2016 regarding the provision of electricity transmission and system services and the administration of the balancing market, the Company has the obligation to establish and maintain a financial guarantee of 1% of the turnover related to the licensed activities, which enables the Company to continue its licensed activities, considering the major risks that may impact these activities and which covers any potential damages that may be incurred according to the concluded contractual clauses. In order to comply with this obligation, the Company entered a loan agreement for the issuance of bank letters of guarantee with Banca Comerciala Romana, the value of which was 26,805,370 as of December 31st, 2018.

On December 21, 2018, the Company entered a loan agreement for the issuance of bank letters of guarantee with Banca Comerciala Romana amounting to 30,150,240 and valid between January 1st, 2019 and December 31st, 2019.

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

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

Received guarantees

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

i) Revaluation reserves as of December 31st, 2018

As of December 31st, 2018, revaluation reserves are in amount of 586,881,749 (December 31st, 2016: 533,839,585).

Starting with May 1st, 2009, the reserves from the revaluation of fixed assets, including land plots, recorded after January 1st, 2004, which are deducted when calculating taxable income through tax depreciation expenses or transferred and/or ceased assets expenses, are taxed simultaneously with the tax depreciation deduction, namely when the assets are disposed, as the case may be.

Realized reserves are taxable in the future, in case of changing the destination of the reserves in any form, in case of liquidation, merger of the Company, including using the reserves for covering the Company's losses, except for the transfer of the aforementioned reserves after May 1st, 2009.

ii) Tariffs for the electricity transmission and system service

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

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

The current regulatory period lasts five years (July 1st, 2014 – June 30th, 2019), and comprises five tariff years (the tariff year begins on July 1st and lasts for 12 months). Thus, 2018 was the year of transition from the fourth tariff year to the fifth (last) tariff year within the current regulatory period (the fourth tariff year ended June 30th, 2018, the fifth tariff year began on July 1st, 2018). For 2018, the tariffs for the transmission and system services were calculated according to the provisions of ANRE Orders no. 53/2013 and 87/2013, as subsequently amended and supplemented. For the first semester of 2018, tariffs for the transmission and system services were approved by ANRE Order no. 48/2017 and for the second semester of 2018 by ANRE Order no. 108/2018.

According to ANRE Order no. 53/2013, as subsequently amended and supplemented, approving the Methodology for determining the tariffs for the electricity transmission service, for the calculation of the regulated revenue for the first tariff period, the competent authority determines the amount related to the efficiency gains (resulted from the reduction of controllable operating costs incurred in a tariff period) above the

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

targets set for prior regulated period and allocates 50% of the surplus to the customers of the transmission service (gain sharing mechanism).

According to ANRE Order no. 87/2013 approving the Methodology for determining the tariffs for the system services, the competent authority determines the amount related to gains obtained by the transmission and system operator through an efficient management of technological system services within a tariff period and allocates 80% thereof to users (gain sharing mechanism). In June 2017, via Order no. 45/2017, ANRE approved the new Methodology for determining the tariffs for the system services, applicable starting with the tariff period July 1st, 2017 - June 30th, 2018 (repealing ANRE Order no. 87/2013).

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

Exceptionally, the fee for technological system services approved for the fourth tariff year was reviewed based on art. 45 of the ANRE Order no. 45/2017, from 9.39 lei/MWh to 12.06 lei/MWh, applicable as of January 1, 2018. The main underlying factor for the tariff increase was represented by the reconsideration of the price assumptions related to Transelectrica's purchase of system reserves on the competitive market.

Serviciul	Applied tariff First quarter 2018 (approved by ANRE Order no. 122/2018)	Applied tariff Second quarter 2018 (approved by ANRE Order no. 108/2018)
	lei/MWh	lei/MWh
Electricity transmission service	16,86	18,13
Functional system services	1,11	1,11
Technological system services	12,06	10,44

Contingencies

The following control measures are ongoing at the Company's Transelectrica headquarters:

- Ministry of Public Finance - General Department of Economic and Financial Inspection - an inspection activity that started on 15.09.2017 and which was suspended by Address 243104 / 29.11.2017 on the same date. The inspection was resumed on 18.06.2018 (as per Letter 261403/12.06.2018) and was suspended by Letter 261775/17.07.2018. The verification objectives for 2012-2016 are provided below:

- fundamentals and execution of the revenue and expense budget;
- compliance with the budgetary, economic, financial and accounting discipline;
- compliance with the legal provisions regarding the public and private property of the state and of the units administrative-territorial units, held in any form;
- compliance with the provisions of the Government Order no, 64/2001 on the distribution of profits to the national entities, national companies and commercial companies with full or majority state capital, as well as self-governing administrations with subsequent amendments and completions;
- the use of reserve holdings;
- the way of organizing and exercising the compulsory forms of internal / managerial control;
- the way in which the amounts granted from the consolidated general budget were substantiated and justified,

- At the Company's headquarters, the fiscal inspection of the Ministry of Public Finances – ANAF-DGAMC is ongoing, an inspection activity that started on 20.08.2018, with the following objectives:

- verifying the legality and conformity of fiscal returns and/or relevant operations for fiscal audit, the correctness and accuracy in complying with the obligations to establish taxation bases and the main fiscal liabilities of the income tax in the interval 01.01.2012 - 31.12.2016;
- verifying the compliance provisions regarding tax and accounting legislation;
- verifying other relevant taxation issues, whether accountable for the application of fiscal and accounting legislation;

By Decision no. 21/01.03.2019, registered with the Company under no. 10818/01.03.2019, ANAF-DGAMC decided to suspend the tax inspection starting March 1, 2019, based on art. 127 par. (1) (b) of Law no. 207/2015 on the Tax Procedure Code.

- the Romanian Government – the control body of the prime minister – controlling action begun on January 3, 2019 in CNTEE Transelectrica SA and SMART SA – the objectives of the controlling action are: checking the observance of provisions regarding the organization and operation of CNTEE Transelectrica SA, checking the observance of legal provisions regarding corporate governance rules regarding the appointment and

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

compensation of the decision-making bodies of CNTEE Transelectrica SA (the Board of Supervisors, Directorate), checking the observance of legal provisions regarding the assignment, entering and development of contracts at the level of CNTEE Transelectrica SA, checking the observance of legal provisions regarding the establishment and achievement of incomes, as well as regarding the commitment and performance of expenses in CNTEE Transelectrica SA, checking the contracting and development of the financing contract no. 08164/14.04.2008 entered by SMART SA and ING Bank, other aspects classified as relevant by the controlling team.

- The Company's headquarters hosted the on-the-spot control of the Ministry of Public Finance – ANAF - DGAMC, that began on 11.02.2019 and ended on 11.03.2019 through the Protocol no. 7147. Tax inspection activities envisaged transactions on the balancing market, respectively the frame conventions entered by the Company with SC IGA Energy SA.

- The Company's headquarters are hosting a review that began on 21.01.2019, with the following topics: checking how the company has fulfilled, starting 01.01.2016, the obligations set out in the Rules for the management and operation of maintenance activities approved by ANRE Orders no. 35/2002 and no. 845/2017, checking how the Company has performed as of 01.01.2016 works for the deforestation of vegetation and ornamental cutting, to create and maintain distance from power grids, checking how the company has performed, as of 01.01.2016, a reliability analysis for the grid elements in the areas affected by incidents and has performed correlation with investment and maintenance works, based on the obligation to ensure safety in electricity supply, stipulated under art. 36 (7) (c) of the Law on electricity and natural gas no. 123/2012, as subsequently amended and supplemented.

- On 30 December 2018 Teletrans S.A, a subsidiary of the Company was under a control that began on 29.05.2015 by the General Economic–Financial Audit Directorate from the Ministry of Public Finance, the reviewed period being 01.01.2010-31.12.2014, according to the service orders 82/27.05.2015 and 01.01.2015-to date, according to the service order 38/31.05.2017; the economic-financial audit objectives being:

- fundamentals and execution of the revenue and expense budget;
- compliance with the budgetary, economic, financial and accounting discipline;
- compliance with the legal provisions regarding the assets from the state's public and private domain and in that of administrative-territorial units;
- the way of organizing and exercising the compulsory forms of internal / managerial control;
- checking the compliance with the provisions of GO 26/2013 on enhancing financial discipline of certain economic operators where the state or administrative territorial units are single or majority shareholders, or hold directly or indirectly majority participation in 2015 – to date.

The draft economic and financial inspection report issued on February 21st, 2018 claims the effect of prejudicing the state budget with the total amount of 88,778,158, representing amounts collected but not paid to the state budget in the period 2006 – 2016, due to leasing the goods belonging to the State's public domain (infrastructure capacities and elements from the public telecommunications network) while not observing by the Company's and Teletrans S.A.'s employees of the provisions of Art. 14, Art. 15 and Art. 16 of Law no. 213/1998 on public patrimony.

In the letter 13443 from 26.03.2018, Teletrans notified Transelectrica of the following:

- In 21.02.2018 – 10.03.2018 time frame, several meetings took place between the representatives of Teletrans and the representatives of the Ministry's audit team, which decided the calculation base used in the draft report was wrong, as it strictly related to the revenues registered without taking into account the expenses made (total amortisement of the procured grid equipment, human resources as well as all indirect costs of such activities) and without fully understanding the commercial and juridical relations between Transelectrica and Teletrans;
- Consequently, the audit team together with the managers of the Economic-Financial Audit Division from the Ministry of Finance provided a new term to Teletrans by which it should submit the reviewed situation and additional explanations for the reviewed time interval, extending the 27.02.2018 term by 30.03.2018.

As regards the legality of operating the excess optical fibre, the contractual relation was argued in juridical terms by taking into account the legal opinion of Bostina&Asociatii according to which the previous contract C45/2006 was qualified as mandate contract without representation aiming at "concluding contracts by TELETRANS SA in its own name but on account of Transelectrica's public telecommunication network in view of trading its capacity and infrastructure components". The construction of the juridical deed enabled concluding Covenant C111/2014, while maintaining the nature of juridical relations between the parties.

Letter 42553 / 17.10.2018 of CNTEE Transelectrica SA transmitted to Teletrans SA provided the analysis of revenues collected and expenses incurred in June 2006 - November 2017, analysis regarding the excess capacity of optical fibre and requested subsidiary Teletrans to transmit the Company's point of view with the analysis to the Economic-financial Inspection of MFP before it elaborates the Final RIF (Fiscal Inspection

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

Report).

Thus in view of determining the possible effect of the result with the draft economic-financial inspection report issued on 21 February 2018, the Company examined the revenues collected by Transelectrica from Teletrans and the expenses incurred by Transelectrica from June 2006 to November 2017, associated to the excess optical fibre capacity, resulting in 3,047,441 difference between revenues collected and expenses made.

Until the approval date of stand-alone interim financial statements on 31 December 2018, the Company had not finished the analysis necessary to determine the possible effect of the result of the draft economic-financial report issued on 21 February 2018.

Currently there are ongoing litigations with the Court of Auditors regarding controls carried out in 2013 and 2017. Taking into account the findings of the Court of Accounts, found in the Decisions of the years 2013 and 2017, there is the potential of additional tax liabilities, which at this time cannot be accurately determined under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Thus, taking into account all of the above, as of December 31, 2018 the Company did not have the necessary information to make a pertinent analysis with regards to determining the effect over the interim financial statements for the period ended on December 31, 2018, of the conclusion of the draft report.

17. REMUNERATION OF The COMPANY'S MANAGEMENT

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

	December 31, 2018	December 31, 2017
<u>Management employed based on IEC Short-Term Benefits</u>		
Short-term benefits	13.771.926	9.822.029
Other long term benefits	143.644	121.078
<u>Members of the Management Board and the Board of Supervisors</u>		
Fixed component	2.228.191	1.611.448
Variable component		-
Total	16.143.761	11.554.555

In 2013, the 4 year mandate was approved for the members of the Board of Supervisors and the Directorate. The General Assembly of Shareholders of November 6th, 2013 approved the mandate of the Board of Supervisors members and their variable remuneration level starting with the business day immediately following the date of approval of the Administration Plan of CNTEE Transelectrica SA for the period 2013-2017 prepared by the Board of Supervisors, i.e. from 01.10.2013.

Decision no, 1 of 23.03.2015 of the Ordinary General Assembly of Shareholders approved under items 3.3 and 3.4 the setting of the general caps of the fixed remuneration granted to the Board of Supervisors members of CNTEE "Transelectrica" – S,A, and the general caps of the variable component of their remunerations. As of December 31st, 2018, the number of OAVTs granted to the Board of Supervisors members of Transelectrica is as follows:

Package	No. of OAVTs	Date granted	Expiry date	Weighted average price for the month prior to granting as per the mandate
Package 1				
15 November 2013	644.545	15.11.2013	15.11.2016	13,1484 lei/ share
Package 2				
15 November 2014	571.561	15.11.2014	15.11.2017	26,6040 lei/ share
Package 3				
15 November 2015	355.640	15.11.2015	15.11.2018	25,9986 lei/ share
Package 4				
15 November 2016	415.274	15.11.2016	15.11.2019	29,0861 lei/ share

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

As of December 31st, 2018, as per the certificates issued by the Company, the number of OAVTs granted to the Transelectrica Directorate members is as follows:

Package	No. of OAVTs	Date granted	Expiry date	Weighted average price for the month prior to granting as per the mandate
Package 1				
15 May 2014	567.978	15.05.2014	15.11.2016	13,1484 lei/ share
Package 2				
15 November 2014	657.973	15.11.2014	15.11.2017	26,6040 lei/ share
Package 3				
15 November 2015	522.418	15.11.2015	15.11.2018	25,9986 lei/ share
Package 4				
15 November 2016	394.345	15.11.2016	15.11.2019	29,0861 lei/ share
Package 5				
15 November 2017	79.752	15.11.2017	15.11.2020	28.5501 lei/share

Details of the valuation model of OAVTs:

	Package 1	Package 2	Package 3	Package 4	Package 5
Validity	3 years	3 years	3 years	3 years	3 years
Exercise method	1/3 of the package granted yearly				
Weighted average price for the month prior	13.1484 lei/ share	26.6040 lei/ share	25.9986 lei/ share	29.0861 lei/ share	28.5501 lei/share

As of December 31st, 2018, the Company recorded a provision amounting to 38,498,154 (38,498,154 as of December 31st, 2017) for the annual variable component owed to the Directorate and Board of Supervisors members for the fair value of the virtual shares of the Company as of the end of the financial year.

18. NON-CONTROLLING INTERESTS

	December 31, 2018	December 31, 2017
Balance at the beginning of the year	4.065	5.484
Share of profit for the year	(2.730)	(1.419)
Additional non-controlling interests	0	-
Balance at the end of the year	1.335	4.065

19. FINANCIAL INSTRUMENTS

Managementul riscului financiar

Financial risk management

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

The Group does not have formal arrangements to mitigate financial risks. However, the financial risks are monitored by management focusing on the needs of the Group in order to make sure that the opportunities and threats are matched efficiently.

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

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

Interest rate risk

The Company's operating cash flows are affected by changes in interest rates, mainly due to the foreign currency long-term borrowings with variable interest rates contracted from external financing banks. The Company has significant long-term borrowings with variable interest rates that expose it to significant cash flow risk.

At the reporting date, the ratio of the Company's financial instruments with fixed interest rate to the ones with variable interest rate is presented as follows:

	December 31, 2018	December 31, 2017
Fixed rate instruments		
Financial liabilities	166.473	389.449
Variable rate instruments		
Financial liabilities	38.542	143.919

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

Sensitivity analysis of interest rate

As of the reporting date, a 100% appreciation of the interest rate for the borrowings with variable interest rates date would have decreased the gross profit for the period by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Loss December 31, 2018	Loss December 31, 2017
RON	-	-
EUR	(9)	(877)
USD	(0)	(12)
Total	(9)	(889)

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

	Profit December 31, 2018	Profit December 31, 2017
RON	-	-
EUR	9	877
USD	0	12
Total	9	889

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

Exchange rate risk

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

The Group's functional currency is the Romanian Leu. The Company is exposed to foreign currency risk on cash and cash equivalents, purchases and borrowings that are denominated in a currency other than the functional currency. The currencies giving rise to this risk are primarily EUR and USD. The long-term loans and other liabilities denominated in foreign currencies are subsequently recalculated in lei at the prevailing exchange rate at each balance sheet date, as communicated by Romanian National Bank. The resulting differences are included in the profit and loss account, but do not affect cash flows until the settlement of the debt.

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

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

31 decembrie 2018	Valoare	RON	EUR	USD
Active monetare				
Cash and cash equivalents	505.494	466.570	38.899	25
Receivables	1.079.921	1.008.184	71.737	0
Expunerea bruta	1.585.415	1.474.755	110.636	25
Datorii financiare				
Furnizori si alte datorii	1.034.705	929.656	105.050	0
Imprumuturi	205.015	7.837	197.178	0
Expunerea bruta	1.239.720	937.493	302.227	0
Expunerea neta la data de raportare	345.695	537.262	(191.591)	25
31 Decembrie 2017	Valoare	RON	EUR	USD
Monetary assets				
Cash and cash equivalents	553.875	498.963	54.896	16
Other financial assets	-	-	-	-
Receivables	825.949	760.501	65.148	-
Gross exposure	1.379.824	1.259.464	120.043	16
Monetary liabilities				
Providers and other obligations	704.574	638.725	65.849	-
Loans	533.369	224.989	308.380	-
Gross exposure	1.237.943	863.714	374.229	3.435
Net balance sheet exposure	141.881	395.750	(254.186)	(3.420)

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

The following exchange rates were used:

	Average exchange rate		Exchange rate as of	
	2018	2017	December 31, 2018	December 31, 2018
RON/ EURO	4,6535	4,5682	4,6639	4,6597
RON/ USD	3,9416	4,0524	4,0736	3,8915

Analiza de senzitivitate a riscului valutar

A 10% appreciation of the RON against the following currencies as of December 31st, 2018 and December 31st, 2017 would have increased the gross profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit December 31, 2018	Profit December 31, 2017
EUR	19.212	25.419
USD	(2)	342
Total	19.210	25.761

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018

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

A 10% depreciation of the RON against the following currencies as of December 31st, 2018 and December 31st, 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

	Loss December 31, 2018	Loss December 31, 2017
EUR	(19.212)	(25.419)
USD	2	(342)
Total	(19.210)	(25.761)

The credit risk

The credit risk means a risk under which the Group supports financial loss as consequence of a client's failure to comply with contractual obligations or counterparty's to a financial instrument. This risk comes mainly from receivables and from cash and cash equivalents.

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

Financial assets that may subject the Group to the risk of collection are mainly the trade receivables and the cash and cash equivalents. The company 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 collection risk of such receivables is limited because these amounts are mainly owed by state-owned companies.

Cash is placed with financial institutions considered of minimum risk. The deposits are placed with Banca Comerciala Romana, Garanti Bank, Alpha Bank, ING Bank, Raiffeisen and CITI Bank.

The maximum exposure to the collection risk on the reporting date was as follows:

	Net value	Net value
	December 31, 2018	December 31, 2017
Financial Assets		
Net trade receivables	904.215	728.463
Cash and cash equivalents	505.494	553.875
Other net receivables and down payments to suppliers	30.322	60.689
VAT to be recovered	82.774	47.899
Other financial assets	0	-
Total	1.522.805	1.390.926

The situation of receivables' seniority on the date of drafting the financial position report was:

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

	Gross value December 31, 2018	Provision December 31, 2018	Gross value December 31, 2017	Provision December 31, 2017
Not due	744.341	2.264	573.750	1.268
Maturity exceeded 1 – 30 days	7.717	0	294	2
Maturity exceeded 31 – 90 days	1.270	169	2.877	2.853
Maturity exceeded 90 – 180 days	74	37	(91)	-
Maturity exceeded 180 – 270 days	941	932	61.178	2.979
Maturity exceeded 270 – 365 days	2.101	2.105	26.220	21.851
More than a year	290.785	137.506	189.222	96.034
Total	1.047.228	143.013	853.451	124.988

The situation of other receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31, 2018	Provision December 31, 2018	Gross value December 31, 2017	Provision December 31, 2017
Not due	68.022	3.626	23.429	2.526
Maturity exceeded 1 – 30 days	4	0	73	0
Maturity exceeded 31 – 90 days	46	8	63	57
Maturity exceeded 90 – 180 days	868	0	34.681	34.534
Maturity exceeded 180 – 270 days	153	153	3.020	2.939
Maturity exceeded 270 – 365 days	79	26	179	113
More than a year	72.783	55.193	71.054	42.746
Total	141.955	59.005	132.500	82.913

Group's policy is to register impairments value 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 carries out an individual analysis for trade receivables and other uncollected receivables.

The highest impairment adjustments as of 31st December 2018, calculated for trade receivables and related penalties were recorded for SC Eco Energy SRL (24,736,066), Petprod SRL (23,539,650), Arelco Power (14,545,496), SCTotal Electric Oltenia SA (14,185,577), Romenergy Industry (13,512,997), Elsaco Energy (9,293,972), RAAN (8,516,707), Also Energ (7,177,167), Opcom (5,577,320), CET Brasov (4,664,627). In order to recover the receivables adjusted for impairment, the Company took the following measures: court action, enrolment in the statement of affairs, requesting clarifications from ANAF (for VAT to be collected from Opcom), etc.

The evolution of adjustments for impairment of receivables is presented as follows:

	December 31, 2018	December 31, 2017
Balance on 01.01.	124.988	103.381
Recognition of adjustments for impairment	26.479	36.576
Reversal of adjustments for impairment	8.454	(14.969)
Balance at the end of the period	143.014	124.988

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

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

	December 31, 2018	December 31, 2017
Balance on 01.01.	82.913	92.274
Recognition of adjustments for impairment	10.436	38.010
Reversal of adjustments for impairment	34.344	(47.371)
Balance at the end of the period	59.005	82.913

Liquidity Risk

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

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

	December 31, 2018	December 31, 2017
Assets		
Monetary assets in RON	1.474.755	1.258.979
Monetary assets in foreign currency	110.661	120.059
	1.585.415	1.379.339
Debts		
Monetary liabilities in RON	(863.714)	(863.714)
Monetary liabilities in foreign currency	(377.664)	(377.664)
	(1.241.378)	(1.237.943)
Net monetary position in RON	611.041	395.265
Net monetary position in foreign currency	(267.003)	(257.605)

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

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

31 decembrie 2018	Net value	Contractual value	<12 months	1 – 2 years	2 – 5 years	> 5 years
Financial liabilities						
Providers and other obligations	(1.018.348)	(1.058.089)	(6.353)	(6.790)	(9.687)	0
Other tax and social security liabilities	(11.578)	(10.052)	0	0	0	0
Loans	(205.015)	(833.078)	(53.311)	(23.997)	(67.467)	(52.402)
Total	(1.234.940)	(1.901.220)	(59.665)	(30.787)	(77.154)	(52.402)
31 decembrie 2017						
Financial liabilities						
Providers and other obligations	(693.349)	(726.521)	(679.594)	(12.917)	(838)	-
Other tax and social security liabilities	(11.225)	(11.503)	(11.225)	-	-	-
Loans	(533.369)	(1.292.252)	(338.183)	(51.449)	(68.913)	(74.824)
Total	(1.237.942)	(2.030.276)	(1.029.001)	(64.336)	(69.751)	(74.824)

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

Fair value of financial instruments

The fair value is the amount at which the financial instrument can be exchanged in current transactions by willing parties in an arm's length transaction, other than determined through liquidation or forced sale. The fair values are obtained from quoted market prices or through cash flows models, as appropriate. As of December 31st, 2017 and December 31st, 2016, the management believes that the fair values of cash and cash equivalents, trade and other receivables, trade payables, loans and other short-term liabilities approximates their carrying value. The carrying amount of the loan is the depreciated cost.

December 31, 2018

	Carrying amount	Fair value	Nivel
Financial Assets			
Net trade receivables	904.215	904.215	Level 1
Cash and cash equivalents	505.494	505.494	Level 1
Other net receivables	30.322	30.322	Level 1
VAT to be recovered	82.774	82.774	Level 1
Other financial assets	0	0	Level 1
Total	1.522.805	1.522.805	
Non-current financial liabilities			
Borrowings, except for bonds	143.866	143.866	Level 1
Bonds	0	0	Level 1
Total	143.866	143.866	
Current financial liabilities			
Trade payables and suppliers of non-current assets	1.018.348	1.018.348	Level 1
Borrowings, except for bonds	61.149	61.149	Level 2
Bonds	0	0	Level 1
Liabilities towards employees and other liabilities	11.578	11.578	Level 1
Total	1.091.074	1.091.074	

December 31, 2017

	Valoare contabila	Valoare justa	Nivel
Financial Assets			
Net trade receivables	728.463	728.463	Level 1
Cash and cash equivalents	553.875	553.875	Level 1
Other net receivables	60.689	60.689	Level 1
VAT to be recovered	47.899	47.899	Level 1
Other financial assets	-	-	Level 1
Total	1.390.926	1.390.926	
Non-current financial liabilities			
Borrowings, except for bonds	195.186	195.186	Level 1
Bonds	-	-	Level 1
Total	195.186	195.186	
Current financial liabilities			
Trade payables and suppliers of non-current assets	693.349	693.349	Level 1
Borrowings, except for bonds	138.183	138.183	Level 1
Borrowings, except for bonds	200.000	200.000	Level 2
Bonds	11.225	11.225	Level 1
Total	1.042.757	1.042.757	

The accompanying notes form an integral part of the consolidated financial statements

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in "thousand LEI", unless stated otherwise)

Categories of financial assets

	December 31, 2018	December 31, 2017
Financial Assets		
Cash and bank equivalents	505.494	553.875
Receivables	1.069.938	825.949
Financial liabilities		
Depreciated cost	(1.234.940)	1.237.943

Personnel risk and the salary scheme

As of December 31st, 2018, the average age of the Company's personnel is quite high. It is likely that in the nearest future, the Company will face a lack of personnel due to natural causes.

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

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

Capital risk management

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

Indebtedness

	December 31, 2018	December 31, 2017
Short and long-term loans	205.015	533.369
Cash and bank equivalents	(505.494)	(553.875)
Other financial assets	0	-
	(300.479)	(20.506)
Equity	2.841.571	2.739.554
Indebtedness	-	-

20. FEES CHARGED BY EACH STATUTORY AUDITOR OR AUDIT FIRM

The total fees charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax consultancy services and for non- audit services according to Art. 38 of Annex no. 1 to the Order no. 2844/2016 of the Ministry of Public Finances, as subsequently amended and supplemented, related to the year 2018, are as follows:

- **BDO Audit SRL** - Contract no, C111/28.01.2019 – audit services for the stand-alone and consolidated financial statements, issuance of the report on the conformity of the Directorate's Report with the stand-alone and consolidated financial statements, audit services regarding the fulfilment of the financial conditions specified in the loan agreements concluded with Commercial Banks/International Financial Institutions, in bond issuance contracts, audit report in compliance with art. 82 of Law no. 24/2017, audit services for revenues from the supply of telecommunication networks - fees for the 2018 financial year – 211,00, to which VAT is added.
- **PKF Finconta SRL** – Contract no. C75/11.04.2016 –consultancy services – fees for 2018 – 36,700, to which VAT is added.
- **Ceaulescu&Partners SRL** - Contract C473/12.12.2018 - services for drawing up the File of transfer prices for CNTEE Transelectrica SA used in the transactions between CNTEE Transelectrica SA and its subsidiaries in 2018 - 8,200, to which VAT is added.

NPG TRANSELECTRICA SA

Notes to the consolidated financial statements as at december 31, 2018
(All amounts are in “thousand LEI”, unless stated otherwise)

21. SUBSEQUENT EVENTS

Acceptance of the mandate by the Directorate Member

Mr Adrian SAVU, an interim member of the Directorate, appointed on December 21, 2018 by the Board of Supervisors, signed the declaration of acceptance of the mandate on January 3, 2019, its appointment becoming effective as of the signature date, according to the declaration of acceptance of the mandates .

Acceleration of investments to increase the safety in operation of the National Power System

The Company accelerates investments to enhance the safety in operation of the National Power System (NPS) and the electricity supply of consumers in Bucharest, as follows:

- Re-technologisation works in the 400/220/110/20 kV Domnesti Transformer Station, in an advanced state of progress, with an investment of more than 140 million lei,
- In order to reinforce the electricity transmission network in Bucharest, upgrade works of 2.5 million lei were performed last year in the 220/110/20 kV Fundeni Transformer Station;
- For 2019, CNTEE Transelectrica SA aims at purchasing upgrade works for the 400/220/110/10 kV București Sud Station, so as to enhance safety in the supply of consumers in the south of the capital.

Commencement of re-technologisation works in the 220/110 kV Craiova Nord Transformer Station

At the beginning of February 2019, CNTEE Transelectrica SA started the full re-technologisation of the 220/110 kV Craiova Nord Transformer Station, a 9.887 million EUR investment. The contract was signed in 2018, and the estimated completion deadline is 2020. The 220/110 kV Craiova Nord Transformer Station provides electricity to consumers in Craiova, as well as industrial consumers in the area. The station was commissioned in 1974 and this is the first full re-technologisation.

This separate financial report has been approved by the management on March 20, 2019 and has been signed on its behalf by:

Directorate,

**Marius – Dănuț
CARAȘOL**
President

**Claudia - Gina
ANASTASE**
Member

**Adrian
SAVU**
Member

**Andreea Georgiana
FLOREA**
Member

**Constantin
SARAGEA**
Member

Ana-Iuliana DINU
Manager
Economic, Financial & Administrative Unit

Cristiana Zirnovan
Manager
Budgeting and Management Reporting Department



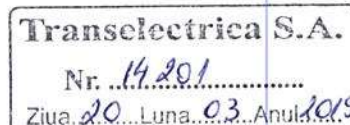
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of CNTEE Transelectrica S.A
33 General Gheorghe Magheru Street, Bucharest-1, Romania

Registration: RO 13328043



Qualified Opinion

We have audited the consolidated financial statements of CNTEE Transelectrica S.A. (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

The consolidated financial statements as at and for the year ended 31 December 2018 are identified as follows:

- Net assets/Total equity: 2,840,236 thousand RON
- Net profit for the year: 75,380 thousand RON

In our opinion, except for the possible effect of the matter described in the paragraph **Basis for qualified opinion**, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016 for the approval of the accounting regulations compliant with International Financial Reporting Standards.

Basis for qualified opinion

Tangible assets include equipment of the Company that were revalued as of 31 December 2012 by an independent authorized valuer, while additions between 31 December 2012 and 31 December 2018 are recorded at cost of acquisition. As of 31 December 2018, the carrying value of those equipment is in amount of 1.219 million RON. Given the period of 6 years from the last valuation, it is possible that the equipment carrying amount to be different from the reported amount without an updated valuation performed by an authorized valuer. Consequently, we were not able to determine if adjustments are needed on the consolidated financial statements for the year ended 31 December 2018 if a valuation would have been performed.

We conducted our audit in accordance with International Standards on Auditing (ISAs), UE Regulation no. 537/2014 of the European Parliament and of the Council („The Regulation”) and Law no. 162/2017 („The Law”). Our responsibilities under those standards and regulations are further described in the **Auditor’s Responsibilities for the Audit of the Financial Statements**



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section of our report. We are independent of the Group in accordance with International Ethics Standards Board of Accountants Code of Ethics for Professional Accountants (“IIESBA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Romania, including the Regulation and the Law, and we have fulfilled out other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of matters

We draw attention to the Note 24 of the consolidated financial statements, which describe the fact that during 2018 the General Direction for Economic and Financial Inspection of the Ministry of Public Finance finalized the audit performed for the period 2010-2014 within Teletrans S.A., a subsidiary of the Group. The draft inspection report issued on February 21, 2018 specifies that, as a result of the lease of assets belonging to the State public domain (capacity and infrastructure elements from the public telecommunication network), without complying with the provisions of art. 14, art. 15 and art. 16 of Law no. 213/1998 regarding the public property by the representatives of CNTEE Transelectrica S.A. and Teletrans S.A., the state budget was damaged with an amount of RON 88,778 thousand RON, representing amounts collected and not delivered to the state budget in the period 2006-2016. The Group has conducted an analysis to determine the possible effect of the outcome of this draft inspection report on the consolidated financial statements, resulting an amount of approximately 3 million RON. As of now, the Final Fiscal Decision was not issued, so the impact on the consolidated financial statements cannot be estimated at this date.

As of 31 December 2018, the Group realized investment works carried out under publicly funded investment programs in amount of 63.3 million RON, presented as Tangible Assets and Other Reserves respectively on the consolidated statement of financial position. We note that those fixed assets have not been handed over to the State authorities since 2013 due to the lack of complete necessary documentation. Those items will be handed over to the State authorities when the delivery documentation will be complete.

As mentioned in Note 8 Trade receivables and other receivables, as of 31 December 2018 the consolidated financial statements include receivables resulted from the activity of managing the support scheme for promoting high-efficiency cogeneration, out of which 185 million RON are due from debtors with financial difficulties (bankruptcy or reorganization). According to the provisions of the ANRE Order, the remaining amounts not paid by the producers of electric and thermal cogenerated energy that access the support scheme, for which all legal steps for collecting the amounts have been taken, will be recovered by including them in the cogeneration contribution as per the methodology issued by ANRE; the financial closure of the support scheme will be made in the first semester of 2024. We mention that until now the methodology for the recovery of these debts has not been issued.



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Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>Please see Note 19 Revenue</p> <p>Revenue recognition policy is described in Note 3 "Accounting Policies - Revenues".</p> <p>In accordance with International Standards on Auditing, there is an implicit risk on revenue recognition due to the pressure on management in obtaining the planned results.</p> <p>The Group's main revenue streams are represented by: the electricity transmission service, the system services and the balancing market operator activity.</p> <p>Electricity transmission is an activity of general interest in the field of electric power, regulated by a public authority, having a natural monopoly character. Tariffs applied for transmission and system services are established and approved by ANRE (National Energy Regulatory Authority).</p> <p>The Group is the administrator of the balancing market. The activity is regulated ANRE. The purpose of this market is to ensure the balance of electricity production and consumption in real time using resources from a competitive environment.</p>	<p>Our audit procedures included, among other:</p> <ul style="list-style-type: none">- We obtained an understanding of the revenue recognition policy for the main revenue streams;- We performed substantive tests on a sample of sales transactions recorded during the year;- We performed audit procedures for testing that revenues were recorded in the appropriate period.- Testing a sample of receivables by sending direct confirmation letters.



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Other information - Administrators' Report

Administrators are responsible for the preparation and presentation of Other information. The Other information comprise the Administrator's report, including the non-financial representation, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Administrator's report, which includes the non-financial representation, we read and report whether the Administrators' report is prepared, in all material respects, in accordance with the Order of Minister of Public Finance no 2844/2016, articles 15-19, respectively 39-42 of the accounting regulations in accordance with International Financial Reporting Standards.

Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements, in our opinion:

- a) The information given in the Administrators' for the financial year for which the consolidated financial statements are prepared, is consistent, in all material respects, with the consolidated financial statements;
- b) The administrators' Report, including the non-financial representation has been prepared, in all material respects, in accordance with OMFP no. 2844/2016, points 15-19, respectively 39-42, of the accounting regulations compliant with the International of Financial Reporting Standards.

In addition, based on our knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Administrators' report. We have nothing to report in this regard.

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

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the Order of the Minister of Public Finance no. 2844/2016. and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

We were appointed by the General Shareholders' Meeting on 21 January 2019 to audit the financial statements of the Group for the year ended 31 December 2018. Our total uninterrupted period of engagement is one year, covering period ending 31 December 2018.

We confirm that:

- Our audit opinion is consistent with the additional report presented to the Audit Committee of the Company, which is issued with the same date as the current report. We also remain independent of the audited entity in conducting the audit.
- We have not provided to the Group the prohibited non-audit services referred to in article 5 (1) of EU Regulation no 537/2014.



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Other matters

This report of the Independent Auditor is addressed exclusively to the Company's shareholders, as a body. Our audit was undertaken in order to report to the Company's shareholders all those aspects that we are required to state to them in a financial audit report and for no other purposes whatsoever. To the extent permitted by law, we do not accept or take responsibility to anyone other than the Company and its shareholders, as a body, for our audit work, for the report on the financial statements and the report on the Administrators' Report, or for the opinion we have formed.

For and behalf of BDO Audit SRL

Registered in the Public Electronic Report with no. 018 / 2001

Authorized by the Authority for Public Oversight of Statutory Audit Activity (ASPAAS), Series FA No. 19 Temp. 14

Partner's name: Vasile Bulata

Registered at the Chamber of the Financial Auditors of Romania with no. 1480 / 2002 Bucharest, Romania

Authorized by the Authority for Public Oversight of Statutory Audit Activity (ASPAAS), Series FA No. 19 Temp. 94 20 March 2019



Note: This is the English translation of the Romanian version of the auditor's report. In case of any discrepancies the Romanian version will prevail.