

**To the: Bucharest Stock Exchange – Department of Operations Issuers Regulated Markets
Financial Supervision Authority - General Directorate Supervision - Issuers Division**

Current report according to the provisions of Law 24/2017, Regulation 1/2006 of CNVM and the BVB Code

Date of the report: **31 May 2018**

Name of Issuer Company: **CNTEE TRANSELECTRICA SA, Company Managed under Two-tier System**

Headquarters: Bucharest 1, Blvd. Magheru no. 33

Working location: Bucharest 3, Str. Olteni no. 2-4

Phone / fax numbers: 4021 3035 611 / 4021 3035 610

Single registration code: 13328043

Number in the Commercial Register: J40/8060/2000

Share capital subscribed and paid: 733,031,420 Lei

LEI Code: 2549000LXCOUQC90M036

Regulated market where the issued securities are transacted: Bucharest Stock Exchange

Communiqué – 2017 Annual reporting is available

The National Power Grid Company Transelectrica SA informs the investor public about the availability of the **2017 Annual Reporting**.

Such report includes:

- Stand-alone financial statements as of and for the financial year ended on 31 December 2017 elaborated in accordance with Order 2844/2016 of the Minister of Public Finance with later amendments and additions approving the Accounting Regulations complying with the International Financial Reporting Standards
- The independent auditor's report about the Stand-alone financial statements as of and for the financial year ended on 31 December 2017 elaborated in accordance with Order 2844/2016 of the Minister of Public Finance with later amendments and additions approving the Accounting Regulations complying with the International Financial Reporting Standards
- The 2017 Annual Report on the stand-alone financial statements of CNTEE TRANSELECTRICA SA elaborated in accordance with Order 2844/2016 of the Minister of Public Finance with later amendments and additions and elaborated according to Law 24/2017 on financial instruments issuers and market operations and of Annex 32 from Regulation 1/2006 issued by the National Securities Commission
- Consolidated Financial Statements as of and for the financial year ended on 31 December 2017 elaborated in accordance with the International Financial Reporting Standards with later amendments and additions, adopted by the European Union
- The independent auditor's report about the Consolidated financial statements as of and for the financial year ended on 31 December 2017 elaborated in accordance with the International Financial Reporting Standards with later amendments and additions, adopted by the European Union
- The 2017 Annual Report regarding the consolidated financial statements of CNTEE TRANSELECTRICA SA elaborated in accordance with the International Financial Reporting Standards with later amendments and additions, adopted by the European Union
- Stand-alone financial statements as of and for the financial year ended on 31 December 2017 in accordance with Decision 6 / 30 April 2018 of the Shareholders' General Ordinary Assembly of the National Power Grid Company Transelectrica SA, as communicated in the Current report on AGOA decision 6/30.04.2018 transmitted to the BSE on 30.04.2018
- Consolidated financial statements as of and for the financial year ended on 31 December 2017 in accordance with Decision 6 / 30 April 2018 of the Shareholders' General Ordinary Assembly of the National Power Grid Company Transelectrica SA as communicated in the Current report on AGOA decision 6/30.04.2018 transmitted to the BSE on 30.04.2018
- Note regarding the Stand-alone financial results included in the 2017 Annual Report in accordance with Decision 6 / 30 April 2018 of the Shareholders' General Ordinary Assembly of the National Power Grid Company Transelectrica SA
- Note regarding the Consolidated financial results included in the 2017 Annual Report in accordance with Decision 6 / 30 April 2018 of the Shareholders' General Ordinary Assembly of the National Power Grid Company Transelectrica SA

The information will be available beginning with 31 May 2018.

- Online, on the website www.transelectrica.ro, section Investor Relations Periodical Reporting / Reports, namely <https://www.transelectrica.ro/rapoarte-2017>;
- At the Company's offices: str. Olteni no. 2-4, Bucharest 3;

Adrian-Constantin RUSU
Executive Director General
Directorate Chairman

Andreea Georgiana FLOREA
Directorate Member

**CNTEE Transelectrica SA
Two-Tier Company**

**Separate Financial Statements
on the date and for the financial year concluded on
December 31st, 2017**

**Drafted according to the
Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica" -
SA from April 30th, 2018**

CNTEE Transelectrica SA**Stand-alone Financial Position**

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid

Company "Transelectrica"- SA on April 30th , 2018*(All amounts are expressed in RON, unless otherwise indicated)*

	Note	December 31st, 2017	December 31st, 2016
Assets			
Fixed assets			
Property, plant and equipment	5	3,044,365,315	3,189,591,544
Intangible assets	6	15,563,225	14,457,314
Financial assets	27	78,038,750	78,038,750
Long-term receivables	7	-	9,774,959
Total fixed assets		3,137,967,290	3,291,862,567
Current assets			
Inventories	8	32,014,652	30,409,648
Trade and other receivables	9	818,529,879	851,971,683
Other financial assets	10	-	135,090,000
Cash and cash equivalents	11	520,746,500	933,661,193
Total current assets		1,371,291,031	1,951,132,524
Total assets		4,509,258,321	5,242,995,091
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital, from which:		733,031,420	733,031,420
- <i>Subscribed share capital</i>		733,031,420	733,031,420
Initial offering		49,842,552	49,842,552
Legal reserves		118,961,487	116,360,295
Revaluation reserves		499,921,435	549,088,226
Other reserves		56,953,503	56,953,728
Retained earnings		1,258,921,369	1,602,438,193
Total shareholders' equity	12	2,717,631,766	3,107,714,414
Non-current liabilities			
Non-current deferred revenues	13	410,642,185	429,858,527
Loans	14	195,185,934	501,929,998
Deferred tax liabilities	17	25,036,280	30,195,003
Obligations regarding employee benefits	15	52,646,906	43,304,975
Total non-current liabilities		683,511,305	1,005,288,503

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018

This is a free translation from the original Romanian version.

CNTEE Transelectrica SA**Stand-alone Financial Position**

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid

Company "Transelectrica"- SA on April 30th , 2018*(All amounts are expressed in RON, unless otherwise indicated)*

	Note	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Current liabilities			
Trade and other payables	16	699.936.819	873.948.200
Other taxes and social insurance liabilities	19	8.688.192	8.611.209
Loans	14	317.063.988	138.204.932
Provisions	16	41.545.187	53.801.778
Short-term deferred revenues	13	40.881.064	38.125.074
Income tax to be paid	17	-	17.300.981
Total current liabilities		1.108.115.250	1.129.992.174
Total liabilities		1.791.626.555	2.135.280.677
Total shareholders' equity and liabilities		4,509,258,321	5.242.995.091

Directorate

**Adrian-Constantin
RUSU**

Chairman

**Dan-Valeriu
ARDELEAN**

Member

**Andreea Georgiana
FLOREA**

Member

**Georgeta-Corina
POPESCU**

Member

**Florin-Cristian
TATARU**

Member

Cristina STOIAN

Economics and Financial Strategy Department Director

Veronica CRISU

Accountant Department Manager

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018

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CNTEE Transelectrica SA

Separate Statement of Profit and Loss

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid

Company "Transelectrica"- SA on April 30th , 2018*(All amounts are expressed in RON, unless otherwise indicated)*

	Note	2017	2016
Revenues			
Transmission revenues		1,054,629,112	1,146,256,800
System service revenues		650,746,554	716,339,587
Revenues on the balancing market		1,304,613,489	814,079,670
Other revenues		50,327,846	45,827,232
Total revenues	20	3,060,317,001	2,722,503,289
Operating expenses			
System operating expenses	21	(257,916,731)	(230,756,782)
Expenses on the balancing market	21	(1,304,613,489)	(814,079,670)
Expenses regarding the technological system services	21	(661,323,176)	(561,027,373)
Depreciation		(311,853,273)	(323,363,219)
Employee-related expenses	22	(178,575,211)	(211,867,366)
Repairs and maintenance		(84,765,211)	(88,394,391)
Expenditures with materials and consumables	8	(8,316,853)	(7,675,889)
Other operating expenses	23	(184,958,423)	(133,720,367)
Total operating expenses		(2,992,322,367)	(2,370,885,057)
Operating profit		67,994,634	351,618,232
Financial revenues		19,098,960	29,960,030
Financial expenses		(40,219,198)	(46,988,308)
Net financial result	24	(21,120,238)	(17,028,278)
Result before income tax		46,874,396	334,589,954
Income tax	17	(18,607,221)	(62,228,411)
Result of the financial year		28,267,175	272,361,543
Basic and diluted earnings per share (lei/share)	18	0.3856	3.7155

The accompanying notes form an integral part of the stand_alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018

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CNTEE Transelectrica SA

Separate Statement of Profit and Loss

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid

Company "Transelectrica"- SA on April 30th , 2018*(All amounts are expressed in RON, unless otherwise indicated)*

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Profit of the financial year		28,267,175	272,361,543
Other comprehensive income			
Elements which will not be reclassified in the profit and loss account, out of which:			
- The effect of taxation corresponding to the reevaluation reserve		-	-
- Surplus from the reevaluation of tangible assets		-	-
- Actuarial losses corresponding to the determined benefits plan	15	(6,331,427)	(958,650)
Other comprehensive income (AERG)		(6,331,427)	(958,650)
Total comprehensive income		21,935,748	271,402,893

Directorate

**Adrian-Constantin
RUSU**

Chairman

**Dan-Valeriu
ARDELEAN**

Member

**Andreea Georgiana
FLOREA**

Member

**Georgeta-Corina
POPESCU**

Member

**Florin-Cristian
TATARU**

Member

Cristina STOIAN

Economics and Financial Strategy Department Director

Veronica CRISU

Accountant Department Manager

CNTEE Transelectrica SA
Stand-alone Statement of Changes in Shareholders' Equity

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica" - SA on April 30th, 2018

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

	Share capital	Share premium	Legal reserves	Reserve fund from reevaluation	Other reserves	Retained earnings	Total
Balance on January 1st, 2016	733,031,420	49,842,552	99,407,385	603,684,792	55,694,602	1,487,644,971	3,029,305,722
Profit of the financial year	-	-	-	-	-	272,361,543	272,361,543
Other elements of the comprehensive income, from which:							
Recognition of actuarial losses regarding the determined plan of benefits	-	-	-	-	-	(958,650)	(958,650)
Total other elements of the comprehensive income	-	-	-	-	-	(958,650)	(958,650)
Total comprehensive income of the period	-	-	-	-	-	271,402,893	271,402,893
Other elements							
Transfer of the reserves from reevaluation in the retained earnings	-	-	-	(54,596,566)	-	54,596,566	-
Increase of the legal reserve fund	-	-	16,952,910	-	-	(16,952,910)	-
Other elements	-	-	-	-	-	-	-
Total other elements	-	-	16,952,910	(54,596,566)	-	37,643,656	-
Contribution from shareholders and distributions to shareholders							
Subsidies of public assets (see Note 12)	-	-	-	-	1,259,126	-	1,259,126
Distribution of dividends	-	-	-	-	-	(194,253,327)	(194,253,327)
Total contributions from shareholders and distributions to shareholders	-	-	-	-	1,259,126	(194,253,327)	(192,994,201)
Balance on December 31st, 2016	733,031,420	49,842,552	116,360,295	549,088,226	56,953,728	1,602,438,193	3,107,714,414

Adrian-Constantin RUSU	Dan-Valeriu ARDELEAN	Directorate Andreea Georgiana FLOREA	Georgeta-Corina POPESCU	Florin-Cristian TATARU
Chairman	Member	Member	Member	Member
Cristina STOIAN Economics and Financial Strategy Department Director		Veronica CRISU Accountant Department Manager		

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica" - SA on April 30th, 2018

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CNTEE Transelectrica SA
Stand-alone Statement of Changes in Shareholders' Equity

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica" - SA on April 30th, 2018

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

	<u>Share capital</u>	<u>Share premium</u>	<u>Legal reserves</u>	<u>Reserve fund from reevaluation</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance on January 1st, 2017	733,031,420	49,842,552	116,360,295	549,088,226	56,953,728	1,602,438,193	3,107,714,414
Comprehensive income of the period							
Profit of the financial year	-	-	-	-	-	28,267,175	28,267,175
Other elements of the comprehensive income, from which:							
Recognition of actuarial losses regarding the determined plan of benefits	-	-	-	-	-	(6,331,427)	(6,331,427)
Total other elements of the comprehensive income	-	-	-	-	-	(6,331,427)	(6,331,427)
Total comprehensive income of the period	-	-	-	-	-	21,935,748	21,935,748
Other elements							
Transfer of the reserves from reevaluation in the retained earnings	-	-	-	(49,166,791)	-	49,166,791	-
Increase of the legal reserve fund	-	-	2,601,192	-	-	(2,601,192)	-
Other elements	-	-	-	-	-	(75,727,088)	(75,727,088)
Total other elements	-	-	2,601,192	(49,166,791)	-	(29,161,489)	(75,727,088)
Contribution from shareholders and distributions to shareholders							
Derecognition of land plot by dismantling (see Note 5)	-	-	-	-	(225)	(49,751)	(49,796)
Distribution of dividends from the profit of 2016	-	-	-	-	-	(165,445,191)	(165,445,191)
Distribution of special dividends as per GO no. 29/2017	-	-	-	-	-	(170,796,321)	(170,796,321)
Total contributions from shareholders and distributions to shareholders	-	-	-	-	(225)	(336,291,083)	(336,291,308)
Balance on December 31st, 2017	733,031,420	49,842,552	118,961,487	499,921,435	56,953,503	1,258,921,369	2,717,631,766

Directorate

**Adrian-Constantin
RUSU**

Chairman

Cristina STOIAN

Economics and Financial Strategy Department Director

**Dan-Valeriu
ARDELEAN**

Member

**Andreea Georgiana
FLOREA**

Member

Veronica CRISU

Accountant Department Manager

**Georgeta-Corina
POPESCU**

Member

**Florin-Cristian
TATARU**

Member

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica" - SA on April 30th, 2018

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CNTEE Transelectrica SA

Stand-alone Statement of Changes in Shareholders' Equity

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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CNTEE Transelectrica SANotes of the Separate Financial Statements as of December 31st, 2017

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid

Company "Transelectrica"- SA on April 30th, 2018*(All amounts are expressed in RON, unless otherwise indicated)*

	2017	2016
Treasury flows from the operating activity		
Correction of retained earnings required by shareholders	(75,727,088)	-
	28,267,175	
Result of the financial year		272,361,543
Adjustments for:		
Income tax expense	18,607,221	62,228,411
Depreciation expenses	311,853,273	323,363,219
Expenditures with adjustments for trade receivables impairment	36,575,509	21,221,841
Reversal of adjustments for trade receivables impairment	(14,502,821)	(8,538,076)
Loss from various debtors	45,080,551	67,328
Net expenditures/loss with adjustments for various debtors impairment	(9,466,794)	6,163,084
Net expenditures with adjustments for inventory impairment	1,203,735	2,501,184
Net loss on disposal of property, plant and equipment	838,153	272,673
Net expenditures on adjustments regarding tangible assets	1,663,348	4,736,607
Net expenditures regarding provisions	(9,567,625)	22,821,573
Financial expenses with adjustments for the loss of value of assets	-	493,000
Interest expenses, interest revenues and foregone revenues from exchange differences	21,124,449	16,967,314
Cash flows before changes in the current capital	355,949,086	724,659,701
Changes in:		
Clients and similar accounts - electricity and other activities	1,841,831	(38,582,866)
Clients - balancing	12,432,909	(100,325,112)
Clients - cogeneration	(30,511,221)	(20,438,116)
Inventories	(1,605,004)	3,919,306
Trade payables and other liabilities - electricity and other activities	(54,948,491)	(67,341,791)
Liabilities - balancing	(81,854,364)	122,122,565
Liabilities - cogeneration	41,162,173	6,642,675
Liabilities paid according to ANAF taxation decision	(99,890,556)	
Other taxes and social insurance liabilities	76,983	1,847,846
Deferred revenues	(16,460,352)	(26,887,004)
Treasury flows from the operating activity	126,678,104	605,617,204
Paid interests	(22,246,255)	(25,002,612)
Paid income tax	(8,064,579)	(65,766,950)
Net cash from the operating activity	96,367,271	514,847,642
Treasury flows used in the investment activity		
Acquisition of tangible and intangible assets	(182,858,424)	(171,758,870)
Collection from down payments in the previous financial year and unused	-	29,581,392
Collection from sales of tangible assets	25,909	37,001
Collected interests	5,991,201	5,297,687
Received dividends	2,180,584	3,038,332
Other financial assets	135,090,000	(65,005,000)
Net cash used in the investment activity	(39,570,729)	(198,809,458)
Treasury flows used in the financing activity		
Repayments of long-term loans	(134,371,923)	(162,486,218)
Special dividends paid as per GO 29/2017	(169,798,704)	-
Paid dividends	(165,540,607)	(194,342,031)
Net cash used in the financing activity	(469,711,234)	(356,828,249)

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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CNTEE Transelectrica SANotes of the Separate Financial Statements as of December 31st, 2017In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018*(All amounts are expressed in RON, unless otherwise indicated)*

	<u>2017</u>	<u>2016</u>
Net decrease of cash and cash equivalents	(412,914,693)	(40,790,065)
Cash and cash equivalents on January 1st	933,661,193	974,451,258
Cash and cash equivalents at the end of the period	520,746,500	933,661,193

The accompanying separate financial statements were approved by the management on May 17th, 2018 and signed on its behalf by:

Directorate

Adrian-Constantin RUSU	Dan-Valeriu ARDELEAN	Andreea Georgiana FLOREA	Georgeta-Corina POPESCU	Florin-Cristian TATARU
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Veronica CRISU
Accountant Department Manager

The accompanying notes form an integral part of the stand_alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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CNTEE Transelectrica SA

Notes of the Separate Financial Statements as of December 31st, 2017

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION

The main activity of CNTEE Transelectrica SA ("The Company") consists of: the electricity transmission services and of the 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. 270/February 4th, 2015, 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 Electroenergetic System according to the model of separating the property ("ownership unbundling").

The registered headquarters is located in: 33 General Gheorghe Magheru Blvd., Bucharest, district 1. Currently, the activity of the Company's executive takes place at the place of operations in 2-4 Olteni Street, district 3, Bucharest.

The stand-alone financial report as of December 31st, 2017, drafted according to the Order of the Ministry of Public Finances no. 2844/2016 for 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 July 18th, 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.

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 December 31st, 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 person shareholders which hold 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 December 17th, 2014, and fulfills the obligations arising from its capacity as 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 20th, 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 via the Secretariat-General of the Government into the account of the Romanian State through the 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.

Company's mission

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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CNTEE Transelectrica SA

Notes of the Separate Financial Statements as of December 31st, 2017

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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

The Company's mission 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 market participants.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Other information relating to the Company's activity

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

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

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

CNTEE Transelectrica SA 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 May 23, 2017, 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.

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

On July 5, 2017, Fitch grants the Company a stable BBB rating, as a recognition of the Company's efforts to achieve operational excellence and a responsible approach to the business environment in which it operates. On Oct. 11, 2017, Fitch maintains the BBB rating, stable outlook, rating one step above the country's rating (BBB- / stable outlook) for the Company.

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 develop, approve and monitor the application of all the regulations mandatory at national level necessary for the efficient operation of the electricity, heat and gas sector and market, under conditions of efficiency, competition, transparency and consumer protection.

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 develop and approve methodologies and criteria for the calculation of tariffs and regulated prices, to approve tariffs and regulated prices, to draft framework agreements, to approve technical and commercial regulations etc.

ANRE establishes the tariffs for electricity transmission and system services. Ergo, 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. 802/18.05.2016 and the General Conditions associated to the license approved by ANRE Order no. 104/2014, as subsequently amended and supplemented.

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

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

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CNTEE Transelectrica SA

Notes of the Separate Financial Statements as of December 31st, 2017

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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

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

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

- the volume risk, namely the decrease in the amount of tariffable energy that may adversely affect the Company's financial situation. In 2017, according to ANRE Decision no. 71/2017, a simulation of two-tier tariffs has been performed by inserting a tariff for grid capacity reservation (the tariff component – fixed – for power) additional to the tariff for the energy distributed in the grid (the tariff component – variable – for energy). The application of two-tier tariffs aims at better reflecting the costs of use of the electricity transmission grid (by applying the fixed tariff component), optimizing investments in the electricity transmission grid and protecting the revenues of the transmission operator through the stability offered by the fixed tariff component.

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 and system operator of the National Power System according to the ownership unbundling model.

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

ANRE Order no. 164/07.12.2015, accompanied by the European Commission Approval no. C (2015) 7053 final/12.10.2015, as integral part of the Order, was published in the 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 and system operators.

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

Tariffs for electricity transmission and system services

Electricity transmission is a general interest activity in the field of electricity, authorized and monitored by a public authority (public service), in the form of natural monopoly. The tariffs charged by the Company for transmission and system services are established and approved by ANRE (see Note 20).

Regulated assets base ("RAB")

The transmission tariff is set, among others, based on the regulated asset base. The regulated asset base includes the net value of property, plant and equipment and intangible assets which correspond to the private patrimony of the Company and the net value of the State's public patrimony assets funded via the Company's own 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 regulatory period if in the regulatory period savings amounts were registered and only within the limits thereof, or shall be included in the RAB at the beginning of the next regulatory period, at the value left for depreciation if a value 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, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017).

The regulated return on assets in 2017 for the electricity transmission activity is 7.7%, a value determined ANRE for the current regulatory period.

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

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Inclusion of Transelectrica in the local and international stock exchange indexes

Starting from 29.08.2006, CNTEE Transelectrica SA shares are traded on the regulated market managed by the BSE, in category I under the symbol TEL. The Transelectrica shares are part of 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 2.21% as of December 31st, 2017 (December 31st, 2016: 4.11%), with a stock exchange capitalization of 1,799,592,136 as of December 31st, 2017 (December 31st, 2016: 2,140,451,746).

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 with January 5th, 2015, the Company was included in the Premium category of the regulated market managed by the BSE.

Company's revenues

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

- Electricity transmission service;
- 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 and regulated access to the transmission grid to 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 permanently maintain the operation of the National Power System under safe conditions whilst complying with the quality standards provided in the technical code of the power 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:

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

The technological system services are purchased from energy producers at the request of CNTEE Transelectrica SA pursuant to a procedure regulated by ANRE for maintaining the operational safety of the NPS as well as the quality of electricity transmitted at the parameters required by the 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.

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

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Balancing market operator

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

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

High-efficiency cogeneration

Starting with 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 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.

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 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.

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1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Electricity markets price coupling mechanism

On November 19th, 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.

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

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

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, 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.

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

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2. BASIS OF PREPARATION

(a) Declaration of conformity

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 2017 in accordance with OMF no. 881/2012, as subsequently amended and supplemented.

(b) 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.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of 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 (see Note 4), commitments and contingencies (see Note 26), the recognition of non-refundable funds to be received (see Note 13), the provision for impairment of receivables (see Note 9), the liabilities related to cash settled share-based payment transaction (Note 28) and the liabilities for defined benefit plans (Note 15).

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 regarding assumptions and estimates which imply significant uncertainties are included in the following notes:

- Note 13 – 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 15 – assessment of liabilities for defined benefit plans;
- Note 26 – recognition and assessment of provisions, commitments and contingencies; key assumptions regarding the probability and magnitude of an outflow of resources;
- Note 28 – 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.

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2. BASIS OF DRAFTING (continued)

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-to-private services reveals as follows:

- the services provided by the Company are regulated by ANRE, therefore the Grantor – the competent Ministry – does not control or regulate the type of services that the Company must 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 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. ACCOUNTING POLICIES

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

(a) Property, plant and equipment

Owned assets

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

Recognition

Property, plant and equipment is initially valued at cost.

The cost includes the costs that are directly attributable to the acquisition of the asset. 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
- capitalized loan costs.

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

Subsequent expenditures

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.

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Depreciation

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

	<u>Normal useful life (years)</u>
Buildings and special installations	40-60
Machinery and equipment	15-40
Control and measurement devices	7-12
Vehicles	5-8
Other property, plant and equipment	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 asset items (major components). Asset depreciation methods, useful lives and residual values are revised and adjusted, if necessary, at the end of each reporting period.

Revaluation

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 expert acting as evaluators with sufficient regularity so that the book value does not significantly differ from the value which can be determined based on the fair value as of the reporting date.

(b) Public patrimony assets

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

Government Resolution no. 627/2000 establishes in Annex no. 8 the State public patrimony fixed assets which are under the Company's administration since August 1st, 2000, and which are subject to inventory count and are updated whenever necessary, through 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 patrimony. 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 patrimony 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 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 Journal of Romania no. 298 bis of April 30th, 2015.

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

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3. ACCOUNTING POLICIES (continued)

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 Addendum 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 agreement 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 under the scope of the concession agreement are capitalized and depreciated over the remaining useful life 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 investment depreciation, namely upon the expiry of the normal period of utilization, of the concession or lease agreement, pursuant to the applicable legal provisions, based on a regulatory act adopted in this regard.

(c) 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. The majority of intangible assets recorded by the Company consists of intangibles in progress and customized software. These are depreciated on a straight-line basis over 3 years.

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

Subsequent expenditures

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

CNTEE Transelectrica SANotes of the Separate Financial Statements as of December 31st, 2017In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018*(All amounts are expressed in RON, unless otherwise indicated)***3. ACCOUNTING POLICIES (continued)****(d) Foreign currency transactions**

Transactions in foreign currencies are converted to LEI by applying the exchange rates applicable at the date of the transaction. 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. The exchange rates at December 31st, 2017 and December 31st, 2016 are as follows:

Currency	December 31 st , 2017	December 31 st , 2016
1 EUR	4.6597	4.5411
1 USD	3.8957	4.3033

Non-monetary assets and liabilities expressed in foreign currencies are measured at fair value, at the exchange rate applicable 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 petty cash, current accounts and bank deposits with original maturities of maximum 3 months that are subject to an insignificant risk of change in fair value.

(h) Revaluation reserves

After the recognition as an asset, an item of property, plants and equipment whose fair value can be reliably measured 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.

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If the carrying amount of property, plant and equipment decreases as a result of a revaluation, such decrease is recognized the in 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.

The revaluation reserve included in equity related to an item of property, plant and equipment is transferred directly to the retained earnings, over the depreciation of the revaluated item 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.

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 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.

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

(j) Share capital

Ordinary shares are classified as 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.

3. ACCOUNTING POLICIES (continued)

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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(l) Trade 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 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 value is presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date 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 Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to the initial recognition, these financial liabilities are assessed at depreciated cost using the effective interest method.

Other financial liabilities comprise loans, trade and other payables.

(o) 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.

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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 at 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 professional judgements about future events. New information may become available that causes the Company to change its professional judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities may affect the income 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.

ACCOUNTING POLICIES (continued)

Short-term employee benefits

Short-term employee benefit obligations are assessed on an un-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

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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 and 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;
- 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 and system operator, as well as the distribution operator, must ensure".

The connection tariff is a regulated fee which represents the expense incurred by a network operator to 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 Company 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.

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3. ACCOUNTING POLICIES (continued)

(r) Net financing costs

Net financing costs comprise interest payable on loans calculated using the effective interest rate method, except for loan costs capitalized as part of assets with long cycle of manufacture, dividend income, foreign exchange gains and losses, risk fees and commissions.

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

Interest revenues are recognized in the profit and loss account of the year in which they arise, using the effective interest method. Dividend revenues are recognized in the profit and loss account on the date when the Company's right to receive dividends is recognized.

(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.

(u) Earnings 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 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 and 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 under the assumption that convertible instruments are converted, or that ordinary shares are issued after meeting the specified conditions. The objective of diluted earnings per share is similar with that of basic earnings per share, namely to provide a measure of the interest of each ordinary share in the performance of an entity.

(v) Contingences

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

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- 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 by the chief operating decision maker of the entity, who is responsible for allocating resources to and assessing performance of the segments.

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

a) Standards and interpretations applicable in the current period

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

- Amendments to **IAS 7 "Statement of Cash Flows"** - Presentation Requirement Initiative - adopted by the EU on 6 November 2017 (applicable for annual periods beginning on or after 1 January 2017),
- Amendments to **IAS 12 "Income Tax"** - Recognition of deferred tax assets for unrealized losses - adopted by the EU on 6 November 2017 (applicable for annual periods beginning on or after 1 January 2017),
- Amendments to **IFRS 12 following "IFRS Improvements (Cycle 2012-2014)"** resulting from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28) with the primary objective of eliminating inconsistencies and clarifying certain formulations - adopted by the EU on 7 February 2018 (amendments to IFRS 12 are applicable for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to existing standards did not result in significant changes in the Company's financial statements.

Standards and amendments to existing standards issued by the IASB and adopted by the EU but not yet in force

At the date of approval of these financial statements, the following new standards issued by the IASB and adopted by the EU are not yet in force:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (applicable for annual periods beginning on or after 1 January 2018),
- **IFRS 15 Revenue from Contracts with Customers** and Amendments to IFRS 15 "IFRS 15 Effective Date" - adopted by the EU on 22 September 2016 (applicable for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leasing"** - adopted by the EU on 31 October 2017 (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to **IFRS 4 "Insurance Contracts"** - Application of IFRS 9 Financial Instruments in Accordance with IFRS 4 Insurance Contracts - Adopted by the EU on 3 November 2017 (applicable for annual periods beginning on or after 1 January 2018 or first-time adoption of IFRSs 9 "Financial Instruments"),
- Amendments to **IFRS 15 "Revenue from contracts with customers"** - IFRS 15 clarifications Revenue from contracts with customers - adopted by the EU on 31 October 2017 (applicable for annual periods beginning on or after 1 January 2018),
- Amendments to **IFRS 1 and IAS 28 "Improvements to IFRS (Cycle 2014-2016)"** resulting from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28) with the primary objective of eliminating inconsistencies and clarifying certain formulations - adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are applicable for annual periods beginning on or after 1 January 2018).

The company chose not to adopt these new standards and amendments to existing standards prior to the effective date of entry into force. The Company expects that adopting these standards and amendments to existing standards will not have a material impact on the Company's financial statements during the initial period of application.

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New standards and amendments to existing IASB standards but not yet adopted by the EU

Currently, IFRSs as adopted by the EU do not differ significantly from the IASB regulations, except for the following new standards, amendments to existing standards and new interpretations that have not been approved for use in the International Accounting Standards Board (IASB). EU:

- **IFRS 14 "Deferred Regarding Regulated Activities"** (applicable for annual periods beginning on or after 1 January 2016) - The European Commission has decided not to issue the approval process for this interim standard and to await its completion,
- **IFRS 17 "Insurance Contracts"** (applicable for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 2 Share-based Payment - Classification and measurement of share-based payment transactions (applicable for annual periods beginning on or after 1 January 2018),
- Amendments to **IFRS 9 "Financial Instruments"** - Advance Payment Charges with Negative Compensation (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 **"Consolidated Financial Statements"** and IAS 28 "Investments in Associates and Joint Ventures" - Sale or contribution of assets between an investor and its associates or joint ventures and subsequent amendments (effective date has been postponed for an undetermined period until the research project on the equivalence method is completed),
- Amendments to **IAS 19 Employee Benefits** - Change, reduction or settlement of a plan (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to **IAS 28 "Investments in associates and joint ventures"** - Long-term interests in associates and joint ventures (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to **IAS 40 "Investment property"** - Real estate investment transfers (applicable for annual periods beginning on or after 1 January 2018),
- Amendments to various Standards following the **"IFRS Improvements (Cycle 2015-2017)"** resulting from the annual IFRS Improvement Project (IFRS 3, IFRS 11, IAS 12 and IAS 23) with the primary objective of eliminating inconsistencies and clarifying certain formulations (applicable for annual periods beginning on or after 1 January 2019),
- **IFRIC 22 "Foreign currency transactions and advances"** (applicable for annual periods beginning on or after 1 January),
- **IFRIC 23 "Income Tax Treatment Uncertainty"** (applicable for annual periods beginning on or after 1 January 2019).

The Company expects that the adoption of these Standards and amendments to existing standards will not have a material impact on the Company's financial statements during the initial period of application

4. DETERMINATION OF FAIR VALUE

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

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

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

(i) Property, plant and equipment

The fair value of items of property, plant and equipment are based primarily on 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.

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	Land plots and land improvements	Buildings and special installations	Machinery and equipment	Control and measuremen t devices	Vehicles	Other property, plant and equipment	Property, plant and equipment in progress	Total
COST								
Balance on January 1st, 2016	52,811,058	1,291,503,378	2,981,192,272	414,218,155	11,567,940	264,447,694	407,672,581	5,423,413,078
Additions	-	597	46,963	-	-	-	174,568,463	174,616,023
Transfers from tangible assets in progress	-	19,717,133	49,817,972	8,067,284	7,984,752	5,368,922	(90,956,063)	-
Reclassifications among non-current assets accounts	-	444,416	(437,120)	(7,296)	-	-	-	-
Disposals	-	(242,426)	(6,169,167)	(1,057,383)	(279,907)	(2,672,169)	(274,542)	(10,695,594)
Balance on December 31st, 2016	52,811,058	1,311,423,098	3,024,450,920	421,220,760	19,272,785	267,144,447	491,010,439	5,587,333,507
Balance on January 1st, 2017	52,811,058	1,311,423,098	3,024,450,920	421,220,760	19,272,785	267,144,447	491,010,439	5,587,333,507
Additions			3,370			16,502	170,777,341	170,797,213
Transfers from tangible assets in progress		37,382,966	107,303,350	36,176,207	2,684,594	16,838,579	(200,385,696)	-
Reclassifications among non-current assets accounts							(2,181,516)	(2,181,516)
Disposals	(59,067)	(275,420)	(14,556,831)	(627,352)	(441,285)	(2,231,810)	(1,221,017)	(19,412,783)
Balance on December 31st, 2017	52,751,991	1,348,530,644	3,117,200,809	456,769,615	21,516,094	281,767,718	457,999,550	5,736,536,421
Accumulated depreciation								
Balance on January 1st, 2016	138,179	-	1,624,858,514	292,074,248	8,186,162	143,906,980	-	2,069,164,083
Depreciation expenses	-	90,136,428	170,088,691	29,597,934	706,866	30,373,465	-	320,903,384
Accumulated depreciation of disposals	-	(69,916)	(6,117,426)	(1,057,384)	(279,906)	(2,591,904)	-	(10,116,536)
Balance on December 31st, 2016	138,179	90,066,512	1,788,829,779	320,614,798	8,613,122	171,688,541	-	2,379,950,931
Balance on January 1st, 2017	138,179	90,066,512	1,788,829,779	320,614,798	8,613,122	171,688,541	-	2,379,950,931
Depreciation expenses	-	87,027,784	152,253,417	38,896,676	1,988,587	29,848,167	-	310,014,630
Accumulated depreciation of disposals	-	(16,098)	(14,062,361)	(608,539)	(441,285)	(2,140,352)	-	(17,268,635)

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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Balance on December 31st, 2017	<u>138,179</u>	<u>177,078,198</u>	<u>1,927,020,836</u>	<u>358,902,935</u>	<u>10,160,423</u>	<u>199,396,355</u>	<u>-</u>	<u>2,672,696,925</u>
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	Land plots and land improvements	Buildings and special installations	Machinery and equipment	Control and measurement devices	Vehicles	Other property, plant and equipment	Property, plant and equipment in progress	Total
ADJUSTMENTS FOR IMPAIRMENT								
Balance on January 1st, 2016	-	11,479	-	-	157,307	-	12,629,493	12,798,279
Expenditures with impairment adjustments		(11,479)			(43,899)	-	5,048,131	4,992,753
Balance on December 31st, 2016	-	-	-	-	113,408	-	17,677,624	17,791,032
Expenditures with impairment adjustments	-	367,593	-	-	(113,408)	-	1,428,963	1,683,148
Balance on December 31st, 2017	-	367,593	-	-	-	-	19,106,587	19,474,180
BOOK VALUE								
Balance on January 1st, 2016	52,672,879	1,291,491,899	1,356,333,758	122,143,907	3,224,471	120,540,714	395,043,088	3,341,450,716
Balance on December 31st, 2016	52,672,879	1,221,356,586	1,235,621,141	100,605,962	10,546,256	95,455,906	473,332,815	3,189,591,544
Balance on December 31st, 2017	52,613,812	1,171,084,853	1,190,179,973	97,866,680	11,355,671	82,371,363	438,892,963	3,044,365,315

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5. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2017, the value of land plots recorded a decrease amounting to 59,067 by the re-update of the surfaces resulted from measurements and of authentic documentation to declare subdivision into flats, subject to the Protocol no. 8044/2002 of hand over-take over concluded with Teletrans Craiova agency, as follows:

- the ground surface of 1974.21 m² pertaining to the land plot situated on 5 Brestei street, Craiova, for which the Certificate authenticating the ownership rights was obtained with series M03/10283 of 07.08.2006, has been decreased with the surface of 39.46 m²;
- the ground surface of 1325.67 m² pertaining to the land plot situated on 22 George Cosbuc street, Tg. Jiu, for which the Certificate authenticating the ownership rights was obtained with series M03/10195 of 08.11.2005, has been decreased with the surface of 15.5 m²;
- the ground surface of 1849.72 m² pertaining to the land plot situated on 422 Tg. Jiului way, Dr. Tr. Severin, for which the Certificate authenticating the ownership rights was obtained with series M03/9762 of 14.12.2004, has been decreased with the surface of 9.6 m²;

The total net value of tangible assets decreased on December 31st, 2017 compared to December 31st, 2016 due to the corresponding depreciation of 2017, which was registered against the background of increased amounts of tangible assets in progress.

In 2017, the value of tangible assets in progress increased represented mainly by investment works in the high voltage electricity substations and lines, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 43,722,468;
- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 29,160,469;
- Replacing AT and TRAFO in electrical substations - Stage II – 25,617,956;
- Upgrading the 400/110/10 kV Cluj Est substation – 12,529,350;
- Upgrading the Suceava 110 kV and 20 kV substation – 9,985,185;
- 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. – 8,710,417;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV substation – 5,812,144;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 5,734,551;
- Integrated security system in electric substations, stage IV - 3,571,263;
- Urgent repair of the damage to the Iernut - Gadalina 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 2,842,612;
- Upgrading the Tihau 220/110 kV substation - primary equipment – 2,705,653;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,625,207;
- Motor vehicles_2017 – 2,616,294;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 1,798,732;
- Upgrading the SCADA system for the Constanta Nord substation – 1,439,414;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,398,333;
- Replacing the connectors from electrical substations – 1,149,484;
- Replacing the 110/20 kV TRAFO, 10 MVA in the Fantanele 220/110/20 kV substation – 1,077,551;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,062,965;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,004,798;
- Gutinas – Smardan 400 kV OHL d.c. – 928,054;
- Creating the coexistence conditions between the Iernut Ungheni 400(220) kV OHL in the 71-72 opening and the Brasov Targu Mures Cluj Oradea Ungheni Ogra highway, km 4+500 km 14+605 – 882,093;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 818,392;
- Regulating the coexistence between the Mintia-Sibiu 400 kV OHL, in the 6-8 opening, and the Lugoj-Deva highway, 4th lot, Ilia-Deva district, km 77+361 - km 99+500 – 743,770;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 617,712;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation – 584,342;
- Upgrading the Dumbrava 220/110 kV substation – 558,920;

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- Technical update of the Turnu Severin Est 220/110 kV substation - 542,783.

In 2017, the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the startup of the investment objectives, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 84,925,346;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 39,630,796;
- Replacing AT and TRAFO in electrical substations - Stage II – 19,806,190;
- Integrated security system in electric substations, stage IV: Rosiori 400/220 kV substation, the Oradea Sud 400/110/20 kV station, the Paroseni 220 kV substation, the Iernut 400/220/110/6 kV substation and the Gutinas 400/220/110 kV substation – 17,278,383;
- Urgent repair of the damage to the Iernut - Gadalın 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 8,260,889;
- Upgrading the Suceava 110 kV and 20 kV substation – 6,583,432;
- Upgrading the Tihau 220/110 kV substation – primary equipment – 6,412,602;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 2,659,775;
- Motor vehicles_2017 – 2,616,294;
- Connecting the 147 MW Valea Dacilor WPP to the PTG – 2,400,930;
- Replacing the 110/20 kV TRAFO, 10MVA in the Fantanele 110/20 kV substation – 1,127,962;
- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation – 986,064;
- Creating the coexistence conditions between the Iernut Ungheni 400/220 kV OHL in the 71-72 opening and the Brasov-Targu Mures-Cluj-Oradea-Ungheni-Ogra highway, km 4+500 km 14+605 – 882,094;
- Deposit power transformers for system reserves and isolated passages in the security stock of CNTEE "Transelectrica" - SA in the Sibiu Sud 400 kV substation – 845,925;
- Upgrading the control building from the Roman Nord 400/110/20 kV substation – 675,560;
- Special intervention beams, Universally Anchored Portal type for the 220-400 kV tension, including prefabricated foundations – 643,058;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 617,713;
- Replacing the connectors from electrical substations – 567,278.

The balance of tangible assets in progress on December 31st, 2017 is represented by the projects in progress, the most significant being listed below:

- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 98,257,618;
- PTG connection of the Ivești 300 MW WPP, Fălcu 1 88 MW WPP and Fălcu 2 18 MW WPP via the new Banca (400)/220/110 kV substation – 46,884,983;
- Technical upgrade of the Bradu 400/220/110/20 kV substation – 36,793,858;
- 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. – 20,836,277;
- Extending the services providing business continuity and recovery after disasters – 14,413,918;
- Upgrading the 400/110/10 kV Cluj Est substation – 13,296,517;
- Replacing AT and TRAFO in electrical substations - Stage II – 11,639,718;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobruja 400 kV OHL in the Medgidia Sud 400 kV station – 10,752,585;
- Integrated security system in electric substations, stage IV - 10,308,122;
- Upgrading the Suceava 110 kV and 20 kV substation – 9,656,270;
- Cernavodă - Stălpu 400 kV OHL d.c. and connection in Gura Ialomiței – 8,363,002;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Resita 400/220/110 kV station – 6,572,497;
- 400 kV HVDC Link (submarine cable Romania - Turkey) – 5,853,759;
- 400 kV OHL Gadalın - Suceava, including the NPS interconnection - 5,661,191;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV station – 5,660,476;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 4,430,641;
- Technical upgrade of the Hasdat 220/110 kV substation – 4,397,192;
- Reparation of the failure of the 110-120 terminals of the Bucharest Sud - Ghizdaru 220 kV OHL - 4,274,774;
- Gutinas – Smardan 400 kV OHL d.c. – 3,206,287;
- Extending the control system with new functions and IT registration of access in the objectives of CNTEE Transelectrica SA - 3,200,918;

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- 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) - 3,197,788;
- Connecting the 136 MW wind power plant Platonesti, Ialomita county, to the Grid through constructing a 110 kV cell in the Gura Ialomitei 400/110 kV station – 2,889,337;
- Assembling the optic fiber and upgrading the system of distance protections on the Tantareni-Turceni 400 kV OHL d.c. and the Urechesti-Rovinari 400 kV OHL s.c. – 2,835,840;
- Upgrading the Arefu 220/110/20 kV station - 2,828,131;
- Integrated security system in electric substations, stage III - 2,798,024;
- Upgrading the Raureni 220/110/20 kV station - 2,753,614;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,739,753;
- By-passing the Cetate 110 kV OHL 1 & 2 in the proximity of the Ostrovul Mare 110/20/6 kV substation - 2,578,438;
- PTG connection of Dumesti 99 MW WPP and Romanesti 30 MW WPP, Iasi county, through constructing a 110 kV line cell in the FAI 220/110 kV substation – 2,545,853;
- Security solution for implementing the security measures related to classified information – 2,012,114;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,763,017;
- Executive - DCBPA/CPA: Consolidation, upgrading and extension of the CNTEE "Transelectrica" headquarters – 1,627,393;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,415,333;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,243,115;
- Integrated security system at the new Banca 400/220/110 kV substation – 1,133,202;
- Deploying an optical fiber line between the Pitesti Sud substation and the remote control and installation supervision center of the Pitesti ST (SF) – 1,075,201;
- Upgrading the SCADA system for the Constanta Nord substation – 986,064;
- Upgrading the Dumbrava 220/110 kV substation – 927,421;
- Connecting the Stupina 400 kV substation to the PTG and connecting the Isaccea-Varna 400 kV OHL – 874,015;
- Replacing the connectors from electrical stations – 788,490;
- Ostrovu Mare 220 kV OHL double circuit - PTG – 754,874;
- Oradea – Beckescsaba 400 kV OHL – 740,728.

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 were not revalued in 2017. The management concluded that:

- market prices did not change significantly as compared to 2016, 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.

Buildings and special installations were revalued on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania.

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

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- fixes assets classified in Group 1 - "Constructions" represented by constructions registered in the Company's accounting records as of 31st December 2015, 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, 2015, fully depreciated, 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 inventory of the public domain and for which no depreciation was calculated.

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.

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.

As of December 31st, 2017 and December 31st, 2016, the Company did not have any assets pledged or mortgaged.

Fair value of property, plant and equipment

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

The fair value of the Company'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, 2017 and December 31st, 2016:

	Level 1	Level 2	Level 3	Fair value as of December 31st, 2017
Land plots and land improvements	-	-	52,613,812	52,613,812
Buildings and special installations	-	-	1,171,084,853	1,171,084,853
Machinery and equipment	-	-	1,190,179,974	1,190,179,973
Control and measurement devices	-	-	97,866,680	97,866,680
Vehicles	-	-	11,355,671	11,355,671
Other property, plant and equipment	-	-	82,371,363	82,371,363
	Level 1	Level 2	Level 3	Fair value as of December 31st, 2016
Land plots and land improvements	-	-	52,672,879	52,672,879
Buildings and special installations	-	-	1,221,356,586	1,221,356,586
Machinery and equipment	-	-	1,235,621,141	1,235,621,141
Control and measurement devices	-	-	100,605,962	100,605,962
Vehicles	-	-	10,546,256	10,546,256
Other property, plant and equipment	-	-	95,455,906	95,455,906

There were no transitions between the fair value levels in 2017 or in 2016.

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The value at cost of property, plant and equipment as of December 31st, 2017 and December 31st, 2016, net of accumulated expenses with depreciation and impairment is presented below:

	Value at cost December 31st, 2017	Value at cost December 31st, 2016
Land plots and land improvements	8,843,786	8,784,944
Buildings and special installations	783,669,036	744,290,077
Machinery and equipment	1,184,344,466	1,171,847,235
Control and measurement devices	99,619,188	98,781,910
Vehicles	10,486,786	10,479,432
Other property, plant and equipment	95,455,882	95,455,882
TOTAL	2,182,419,144	2,129,639,480

6. INTANGIBLE ASSETS

As of December 31st, 2017 and December 31st, 2016 the Company's intangible assets are as follows:

	Licenses and software	Intangible assets in progress	Total
COST			
Balance on January 1st, 2016	68,419,502	31,902,650	100,322,152
Additions, of which:	-	5,048,678	5,048,678
Transfers from intangible assets in progress	2,270,566	(2,270,566)	-
Transfers from tangible assets in progress	-	-	-
Disposals	(7,517,190)	(22,950,765)	(30,467,955)
Balance on December 31st, 2016	63,172,878	11,729,997	74,902,875
Balance on January 1st, 2017	63,172,878	11,729,997	74,902,875
Additions	-	1,919,186	1,919,186
Transfers from intangible assets in progress	1,761,191	(1,761,191)	-
Transfers from tangible assets in progress	-	1,087,634	1,087,634
Disposals	(7,334,214)	(78,552)	(7,412,766)
Balance on December 31st, 2017	57,599,855	12,897,075	70,496,930
ACCUMULATED DEPRECIATION			
Balance on January 1st, 2016	64,998,482	-	64,998,482
Depreciation expenses	2,593,261	-	2,593,261
Accumulated depreciation of disposals	(7,517,190)	-	(7,517,190)
Balance on December 31st, 2016	60,074,553	-	60,074,553
Balance on January 1st, 2017	60,074,553	-	60,074,553
Depreciation expenses	1,842,159	-	1,842,159
Accumulated depreciation of disposals	(7,334,215)	-	(7,334,215)
Balance on December 31st, 2017	54,582,497	-	54,582,497

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	Licenses and software	Intangible assets in progress	Total
ADJUSTMENTS FOR IMPAIRMENT			
Balance on January 1st, 2016	-	753,979	753,979
Expenditures with impairment adjustments		(382,971)	(382,971)
Balance on December 31st, 2016	-	371,008	371,008
Expenditures with impairment adjustments		(19,800)	(19,800)
Balance on December 31st, 2017	-	351,208	351,208
BOOK VALUE			
Balance on January 1st, 2016	3,421,020	31,148,671	34,569,691
Balance on December 31st, 2016	3,098,325	11,358,989	14,457,314
Balance on December 31st, 2017	3,017,358	12,545,867	15,563,225

In 2017, the biggest transfers from intangible assets in progress to intangible assets are mainly represented by the startup of the investment objectives, as follows:

- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation with 8 types of licenses – 571,350.
- Licenses corresponding to the technical upgrade of the Campia Turzii 220/110/20 kV substation – 568,075;
- SCADA (software) programs in the Bradu 400/220/110/20 kV substation – 304,871;
- Software for the integrated security management system – 173,658;

For the intangible assets in progress, the largest entries in 2017 were:

- Replacement of EMS SCADA AREVA system components - software component, hardware component – 1,221,966;
- Upgrade of the existing antimalware solution – 45,414;

The balance of intangible assets in progress on December 31st, 2017 is mainly represented by:

- Implementing a system of Electronic Archiving and Document Management within CNTEE Transelectrica SA – 5,474,290;
- Replacement of EMS SCADA AREVA system components - software component, hardware component – 4,000,079;
- MIS extension – advanced reporting and budget planning solution – 3,047,834;
- Upgrading the SCADA system for the Constanta Nord substation – 571,350.

On December 31st, 2017, the tangible assets also included down payments amounting to 31,180,858, granted to the supplier ELCOMEX - IEA SA for performing the projects:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,948,593;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,265.

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

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

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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IPURL as insolvency administrator. Following the declaration of insolvency of Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189,487, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no. C163/29.07.2015 and C255/18.11.2015 and other expenses. Starting with June 30th, 2017, the down payments amounting to 31,180,858 have been reclassified from "Tangible Assets" to "Receivables", where further details are available.

7. LONG-TERM RECEIVABLES

On December 31st, 2017 the Company no longer registers long-term receivables representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high efficiency cogeneration promotion, following the integral collection of the amount of 4,557,606 representing the overcompensation for the year of 2016, amount that should have been collected starting with the month of October 2018, according to the concluded agreements.

8. INVENTORIES

On December 31st, 2017 and December 31st, 2016, the inventories (at net value) were presented as follows:

	December 31st, 2017	December 31st, 2016
Spare parts	23,645,784	21,904,697
Consumables and other materials	7,352,525	7,226,833
Auxiliary materials	577,400	637,832
Other inventories	438,943	640,286
Total	32,014,652	30,409,648

As of December 31st, 2017 and December 31st, 2016, the inventories impairment adjustments are presented as follows:

	December 31st, 2017	December 31st, 2016
Adjustments for impairment of consumables	5,672,349	4,504,931
Adjustments for impairment of other materials	1,838,752	1,924,134
Adjustments for impairment of packaging	155,991	34,293
Total	7,667,092	6,463,358

As of December 31st, 2017 and December 31st, 2016, the evolution of inventories impairment adjustments are presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	6,463,358	3,962,174
Inventories impairment adjustments	2,412,507	4,110,045
Reversal of inventories impairment adjustments	(1,208,773)	(1,608,861)
Balance at the end of the period	7,667,092	6,463,358

8. INVENTORIES (continuation)

During 2017, the expenditures incurred with materials and spare parts consumption are presented as follows:

	December 31st, 2017	December 31st, 2016
Expenditures on spare parts	2,878,154	2,229,478
Expenditures on consumables	1,344,894	1,199,932

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Expenditures on other materials	1,419,908	1,536,239
Expenditures on auxiliary materials	386,521	406,494
Expenditures on fuel	2,287,376	2,303,746
Total	8,316,853	7,675,889

9. TRADE AND OTHER RECEIVABLESOn December 31st, 2017 and December 31st, 2016, the trade receivables and other receivables are presented as follows:

	December 31st, 2017	December 31st, 2016
Trade Receivables	846,827,429	865,338,164
Other Receivables	116,536,143	129,703,771
Down payments to suppliers	11,102,342	19,155,031
Non-reimbursable funds to be received	-	-
VAT to be recovered	47,005,991	28,432,828
Adjustments for impairment of uncertain trade receivables	(122,650,719)	(100,578,031)
Adjustments for impairment of other receivables	(80,291,307)	(90,080,080)
Total	818,529,879	851,971,683

The structure of trade receivables is as follows:

	December 31st, 2017	December 31st, 2016
Customers on the electricity market, out of which:	845,529,240	863,706,722
- Clients - operational activity - energy	382,602,892	428,633,645
- Clients - balancing market	243,547,548	255,980,457
- Clients - bonus type support scheme to promote the high-efficiency cogeneration	219,378,800	179,092,620
Clients from other activities	1,298,189	1,631,442
Total Trade Receivables	846,827,429	865,338,164

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

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

- fall in the electricity capacity provided to consumers in December 2016 compared to December 2017;
- decrease of the average tariff approved by ANRE for these services

The main current customers 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 54% 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 26% (December 31st, 2016 - 22%) of the total trade receivables.

The customers from the bonus type support scheme for promoting the high-efficiency cogeneration registered an increase in the receivables on December 31st, 2017, mainly determined by the receivables amounting to 139,913,507, registered according to the ANRE Decisions on the overcompensation of the activity regarding the support scheme for the year 2016, for which

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invoices were issued in the month of March 2017.

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

- the amount of 1,393,972 representing the overcompensation for the year of 2014, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 13,233,556 representing the overcompensation for the year of 2015, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 83,233,120 representing overcompensation for the year of 2016, on the grounds of reciprocal compensations made via the Management and Informatics Institute (on the grounds of DG no. 685/1999) (the amount of 29,865,930 with Enet SA, Modern Calor, Rulmenti Barlad, Soceram, Thermoenergy Group, Veolia Energie Iasi, Veolia Energie Prahova, CET Govora) and receipts in the bank account dedicated to the administration of the support scheme (the amount of 53,367,190 from CET Grivita, Electrocentrale Bucuresti, Termoficare Oradea, Thermoenergy Group, Veolia Energie Prahova)<
- the amount of 70,765 representing undue bonus for the year of 2016, on the grounds of compensations made via the Management and Informatics Institute (on the grounds of DG no. 685 / 1999) – CET Arad.

On December 31st, 2017, the Company registered receivables amounting to 168,849,902, represented by the issued invoices under the bonus type support scheme for high efficiency cogeneration, out of which:

- overcompensation for the timeframe 2011 - 2013 in the amount of 76,702,140, 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 2015 in the amount of 9,774,958, namely from Electrocentrale Oradea (debt taken over by Termoficare Oradea);
- overcompensation for 2016 in the amount of 56,680,387, namely from Electrocentrale Bucuresti – 56,680,387;
- contribution for cogeneration not collected from the suppliers of electricity consumers, in the amount of 21,213,558, namely from: Transenergo Com – 5,882,073, PetProd - 4,391,193, Romenergy Industry – 2,680,620, RAAN- 2,385,922, Arelco Power – 2,378,723, UGM Energy – 1,814,175, CET Govora – 900,864, KDF Energy – 887,527 and others.

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

CNTEE Transelectrica 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 installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art. 17 (5) from the Order of the ANRE Chairman no. 116/2013 and the provisions of the Agreement, in the amount of 40,507,669.

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

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obligations undertaken according to the Agreement.

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

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

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

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 overtaken debt, in the amount of 29,259,377, has been spread over 24 monthly instalments (October 31st, 2016 - September 30th, 2018). Taking into consideration the Government Decision 925/2016, as subsequently amended and supplemented, presented above in Note 1, the Company does not register provisions for the support scheme, the unrecovered value of these receivables being included in the cogeneration contribution.

Other receivables

On December 31st, 2017, other receivables in the amount of 116,536,143 mainly included:

- late payment penalties calculated to late paying clients, amounting to 64,817,416 (out of which the amount of 26,021,403 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), SC CET Govora (9,606,504), SC Eco Energy SRL (8,909,843), SC Petprod SRL (8,894,655), Total Electric Oltenia (3,288,967), Arcelor Mittal Galati (2,952,319), Also Energ (2,121,010). For the penalty charges for late payment of the receivables from operational activities, depreciation adjustments were recorded.

- 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.

- the down payments granted to the supplier ELCOMEX - IEA SA amounting to 31,180,858, to which penalties amounting to 687,458 have been added. The down payments have been granted to the supplier ELCOMEX - IEA SA for performing the following projects:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,948,593;

Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,265.

The down payments made to ELCOMEX - IEA SA are secured with the insurance policies issued by Asito Kapital S.A. On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no. 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex - IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator.

On the day of insolvency, CNTEE Transelectrica SA held the following agreements concluded with SC Elcomex IEA SA: C163/29.07.2015: "Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad to 400 kV / the 400/220/110 kV Resita substation" and C255/18.11.2015 "Connecting the OHL 400 kV Isaccea-Varna and OHL 400 kV Isaccea-Dobruja in the 400 kV Medgidia Sud station, stage I". Following the declaration of insolvency of SC Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189,487 lei, representing the consideration of the

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down payment made to SC Elcomex IEA SA for the agreements no. C163/29.07.2015 and C255/18.11.2015 and other expenses.

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

On August 8th, 2017, the judiciary administrator Pricewaterhouse Coopers Business Recovery Services IPURL considers itself bound to note the cancellation by CNTEE Transelectrica SA of the agreement no. C255 from November 18th, 2015, regarding "Connection of the Isaccea-Varna 400 kV OHL and Isaccea-Dobruja 400 kV OHL in the Medgidia Sud 400 kV OHL, Stage I", notified by the Company with letter no. 24597 from July 5th, 2017, and at the same time the termination of the agreement on the initiative of CNTEE Transelectrica SA.

Given that to the date of drafting these financial statements, the amounts guaranteed by ASITO KAPITAL SA for the payment of down payments have not been recovered, the Company registered on December 31st, 2017, impairment adjustments amounting to 31,180,858.

On July 1st, 2017, the Company submitted an application for summons regarding the issuance of a payment order, an action subject to the **case file no. 24552/3/2017 on the docket of the Bucharest Court**, Section VI Civil, requesting the Court to rule a decision obliging the debtor ASITO KAPITAL SA to pay the amount of **7,058,773.36 Euro** (*the equivalent of 31,180,857.96 lei*), representing guarantee policies for the down payments no. BR – 1500544/November 18th, 2015, and no. BR – 1500520/July 29th, 2015.

At the hearing from November 7th, 2017, after deliberation, the Bucharest Court ruled the following solution, in short:

- Admits the request.
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 2,237,750.83 euro (the equivalent of 9,948,592.64 lei at the exchange rate of 4.4458 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no. BR-1500544/18.11.2015;
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 4,821,022.53 euro (the equivalent of 21,233,265.32 lei at the exchange rate of 4.4041 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no. BR-1500520/29.07.2015;
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 200 lei representing legal expenses. With right of request in annulment within 10 days from notification. Document: Decision 4067/2017 - 07.11.2017.

By the date of drafting these financial statements, Decision 4067/2017 - 07.11.2017 has not been drafted and communicated in order to be enforced.

- receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to 4,517,460;
- deferred expenses amounting to 4,807,348 mainly represented by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future periods (3,321,562), a guarantee fee for the BEI 25710 loan (83,475) and commission of ING credit granting (354,799), maintenance and technical assistance (97,220), rents (599,548);

- other long-term receivables amounting to 4,517,259, out of which 4,199,505 represent guarantees for temporary occupation of the land calculated and retained in accordance with Article 39 (1), (2) and (5) of the Law no. 46 / 2008 on the Forestry Code, in order to achieve the investment objective Resita – Pancevo (Serbia) 400 kV OHL

Down payments to suppliers

On December 31st, 2017, the down payments to suppliers are represented by the suppliers who are debtors for services amounted to 11,102,342, out of which 11,082,612 represent amounts from transactions related to the price coupling mechanism. Application of the mechanism coupling through the price began on November 19th, 2014, the date at which the project "4 Market Market Coupling" which provides the unification of the electricity markets DAM Square (Next Day Market) from Romania, Hungary, Czech Republic and Slovakia entered in the operating phase. Within the price coupling mechanism for the day-ahead markets, the electricity exchanges correlate the day-ahead electricity transactions based on bids, taking into account the interconnection capacity provided by the TSOs, by which it is implicitly allocated CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs

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(MAVIR-Hungary) and manages the congestion revenues along the respective interconnection (Article 139 from ANRE Order no. 82/2014), while in relation to SC OPCOM SA it acts as Implicit Participant on the Day-Ahead Market.

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

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

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 makes a case by case analysis of uncollected trade and other receivables.

On December 31st, 2017, the highest adjustments of depreciation, calculated for the trade receivables and related penalties, have been recorded for SC Petprod SRL (23,539,650), SC Eco Energy SRL (24,736,066), Arelco Power (17,359,453), SC Total Electric Oltenia SA (14,185,577), Romenergy Industry (13,512,997), Elsaco Energy (9,293,972), Also Energ (7,177,167), RAAN (6,235,210), CET Brasov (4.664.627), OPCOM (4,517,460). The Company took the following measures in order to recover the impaired receivables: court proceedings, entering on the statement of affairs, requesting clarifications from ANAF (regarding the VAT collected from Opcom) and so on.

The Company's exposure to the collection risk, as well as the value adjustments for trade receivables, are presented in Note 29.

10. OTHER FINANCIAL ASSETS

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

	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Bank deposits with maturity larger than 90 days	-	135,090,000
Total	-	135,090,000

On December 31st, 2017, the Company has no bank deposits with maturity larger than 90 days.

11. CASH AND CASH EQUIVALENTS

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

	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Current accounts and bank deposits, out of which:	520,708,388	933,616,367
- cash and deposits from high efficiency cogeneration	19,172,948	107,811,909
- cash from revenues related to interconnection capacity allocation used for grid investments	84,247,056	77,026,910
- cash from the connection fee	31,152,565	22,532,536
Petty cash	37,850	44,789
Other cash equivalents	262	37
Total	520,746,500	933,661,193

The bank deposits with initial maturity smaller than 90 days, constituted with cash available in current accounts (including cogeneration deposits) amounted to 251,047,468 at December 31st, 2017 and to 688,114,823 at December 31st, 2016.

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12. SHAREHOLDERS' EQUITY

Share capital

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.

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

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

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

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

The shareholder structure on December 31st, 2017 and on December 31st, 2016 was as follows:

Shareholder	December 31 st , 2017		December 31 st , 2016	
	Number of shares	% of the Share capital	Number of shares	% of the Share capital
Romanian State through MECRMA	43,020,309	58.69%	43,020,309	58.69%
Other legal person shareholders	20,689,339	28.22%	25,797,725	35.19%
DEDEMAN SRL	4,192,363	5.72%	-	-
Other natural person shareholders	5,401,131	7.37%	4,485,108	6.12%
Total	73,303,142	100.00%	73,303,142	100.00%

12. SHAREHOLDERS' EQUITY (continued)

The Company 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, 2017 and December 31st, 2016, the share capital is as follows:

	December 31 st , 2017	December 31 st , 2016
Share capital (nominal value)	733,031,420	733,031,420
Share capital balance	733,031,420	733,031,420

The shareholders are entitled to receive dividends and are entitled to one vote per share at the meetings of the Company. The value of shareholders' dividends distributed from the profit of 2016 according to the General Assembly Decision no. 4/April 27th, 2017 amounts to 165,445,191, and their payment is done through the Central Depository starting with June 28th, 2017. The amount of unpaid dividends as of December 31st, 2017 is 2,414,333 (December 31st, 2016: 1,312,744).

Share premium

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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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 reserves

Legal reserves in the amount of 118,961,487 as of December 31st, 2017 and 116,360,295 as of December 31st, 2016 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 reserves

The revaluation reserve amounts to 499,921,435 as of December 31st, 2017 and 549,088,226 as of December 31st, 2016. The latest revaluation of buildings and special installations was made on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania ("ANEVAR").

Other reserves

As of December 31st, 2017, other reserves amount to 56,953,503 (56,953,728 as of December 31st, 2016), of which 20,952,260 represents the value of structural funds received from the Managing Authority for Sectoral Operational Program "Increase of Economic Competitiveness" and 32,718,386 represents the value of subsidies from connection tariffs, which were used to finance received investment works in assets that are part of the State's public domain, and 3,282,857 represents the value of the land for which certificates authenticating the ownership rights were obtained. As described in Note 26, 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 1,258,921,369 as of December 31st, 2017 (1,602,438,193 as of December 31st, 2016).

As of December 31st, 2017, the Company recorded a positive retained earnings over the surplus realized from revaluation reserves in the amount of 834,510,994, out of which 189,989,113 surplus from non-taxable revaluation reserves upon change of destination and 644,521,881 surplus from reserves from taxable revaluation to destination change.

As of December 31st, 2017, the actuarial loss recorded in the retained earnings is in the amount of 16,634,230. This amount resulted from the application of IAS 19 Employee Benefits (Note 15) and represents the actuarial loss from the previous periods.

Retained earnings issued from the correction of the modified accounting errors differed from the loss recording, resulting from the additional payment obligations recorded in the ANAF-DGAMC tax inspection report amounting to 75,727,088. Thus, according to Address No. 1649 of 16.04.2018 in 2017, the retained earnings were adjusted by the amount of 75,727,088 representing additional payment obligations calculated up to 31.12.2016 out of the amount of 99,013,399 established by ANAF-DGAMC through the Tax Inspection Report.

From the profit realized on December 31st, 2017 (28,267,175), the amount of 25,665,984 was allocated to "Other reserves", out of which:

- the amount of 13,124,958 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, 2017. 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 2017 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 2017.

In 2017 revenues from the allocation of the interconnection capacity were made in the amount of 75,726,834. On allocation of revenues from the allocation of the interconnection capacity made in 2017 on the destination "other assignments provided by the law", the negative correction in the amount of 16,747,482 of the regulated income has been considered as a correction element from the tariff period 1 July 2015 - June 30, 2016 (positive correction in the amount of 2,600,757) and from the tariff period 1 July 2016 to 30 June 2017 (negative correction in the amount of 19,348,239), applied by ANRE to determine the average electricity tariff for the tariff period July 1, 2017 - June 30, 2018. Thus, the amount of 16,747,482 lei does not become

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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, 2016 - June 30, 2017. In these circumstances, the revenues realized in 2017 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 47,065,524..

- the amount of 12,541,025 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 distribution of net profit as at 31 December 2017

The distribution of accounting profit on legal destinations after the deduction of the profit tax as of December 31st 2017, is the following:

Destination	Amount
Accounting profit remaining after deducting profit tax on December 31 st , 2017	28,267,175
<i>Distributing accounting profit on the following destinations:</i>	
Legal reserve (5%)	2,601,192
Other assignments provided by law - exemption from the payment of tax on reinvested profits	12,541,025
Other allocations provided by the law - revenues generated in 2017 from the allocation of the interconnection capacity (net of profit tax and legal reserve) - partial repartition, up to the accounting profit remaining after the deduction of the profit tax on December 31 st , 2017	13,124,958
Non-distributed profit	-

The calculation of the distribution for the profit after the deduction of the profit tax on 31 December 2017 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 the autonomous regies, approved with amendments by the Law no. 769/2001, as subsequently amended and supplemented;

- Law no. 227/2015 regarding the Fiscal Code, as subsequently amended and supplemented;

- Council Regulation (EC) (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 approval tariff for the average tariff for the transport service sent by ANRE with the address no. 48430 / 14.07.2017 on the data taken into consideration by ANRE in setting tariffs for the tariff period 1 July 2017 - 30 June 2018 (including the correction for revenues from the allocation of interconnection capacity).

The 2017 accounting profit after deducting the profit tax is allocated to the following destinations:

a) - the legal reserve amounting to 2,601,192, determined in the 5% quota according to the provisions of art. 26 par. (1) lit. a) of Law no. 227/2015 regarding the Fiscal Code, as subsequently amended and supplemented;

b) - other assignments provided by law in the amount of 12,541,025, represented by the exemption from the payment of the reinvested profit tax, according to 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 13,124,958, represented by the revenues realized in 2017 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 distributing the revenues from the allocation of the interconnection capacity made in 2017 on the destination "other assignments provided by the law", the negative correction in the amount of 16,747,482 of the regulated income was taken as a

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correction element from the tariff period 1 July 2015 - June 30, 2016 (positive correction in the amount of 2,600,757) and from the tariff period 1 July 2016 to 30 June 2017 (negative correction in the amount of 19,348,239), applied by ANRE to determine the average electricity tariff for the tariff period July 1, 2017 - June 30, 2018. Thus, the amount of 16,747,482 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 July 1, 2016 - June 30, 2017.

Under these conditions, the revenues realized in 2017 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 to maintain or increase the interconnection capacities, according to the Regulation (EC) No 714/2009 and ANRE Order no. 53/2013, amounted to 47,065,524..

The 2017 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 13,124,958, within the limit of the net profit realized. Thus, for the amounts related to the remaining revenues not covered by the profit of 2017, it is necessary to set up the reserves in the amount of 33,940,566 of the surplus from the revaluation reserves not taxable at the change of the destination.

13. 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, 2017, the deferred revenues were as follows:

	December 31st, 2017	Out of which short term portion as of 31.12.2017	December 31st, 2016	Out of which: short-term portion as of 31.12.2016
Deferred revenues – interconnection capacity allocation	5,797,166	5,797,166	6,578,507	6,578,507
Deferred revenues - European Funds	2,558,135	2,558,135	1,320,318	1,320,318
Funds from the connection fee	311,396,019	23,558,353	319,025,555	21,082,024
European Funds	101,624,877	7,415,017	109,440,915	7,472,520
Other subsidies	30,147,052	1,552,393	31,618,306	1,671,705
Total	451,523,249	40,881,064	467,983,601	38,125,074

Evolution in advance short-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance at the beginning of the period	38,125,074	33,408,244
Advance income related to the interconnection capacity	75,479,347	38,685,253
Income from European Funds	1,327,202	1,213,273
Transfer of long-term deferred income	2,299,514	(313,881)
Revenues from the use of the interconnection capacity	(76,260,688)	(34,867,815)
Revenues from European Funds	(89,385)	-
Total	40,881,064	38,125,074

The evolution in advance long-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance at the beginning of the period	429,858,527	462,721,487

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Connection subsidies	14,227,840	(2,951,432)
Non-refundable funds	173,928	32,742
Non-refundable funds to be repaid	-	(137,280)
Transfer to short-term deferred revenues	(2,299,514)	608,559
Release of deferred revenues	(31,318,596)	(30,415,549)
Total	410,642,185	429,858,527

In 2017, CNTEE Transelectrica SA collected from the Ministry of Economy the amount of 163,809 lei in order to start the expropriation procedures for the privately owned immovable properties constituting the expropriation corridor for the following works of national interest:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation - Stage II - Connections in the Medgidia Sud 400 kV OHL d.c. substation;
- Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad axis/Portile de Fier – (Anina) – Resita 400 kV OHL to 400 kV;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV / stage I: Extension of the Portile de Fier 400 kV substation, Portile de Fier - Anina - Resita 400 kV OHL, Resita 400/220/110 kV Resita substation;
- Resita-Pancevo 400 kV OHL interconnection;
- Ostrovu Mare 220 kV OHL double circuit – PTG;
- Gutinas – Smardan 400 kV OHL d.c. and
- Cernavoda-Stalpu 400 kV OHL d.c. and connection in the Gura Ialomitei substation.

14. LOANS*Long-term loans*

On December 31st, 2017 and December 31st, 2016, the amounts owed to credit institutions for a period of over one year are the following:

Description	December 31st, 2017	December 31st, 2016
NIB PI No 02/18 (a)	3,417,420	11,337,158
BIRD 7181 (b)	43,603,118	74,348,437
NIB PI No 03/5 (c)	10,717,310	20,889,060
NIB PI No 02/37 (d)	5,737,176	11,182,303
KfW 10431 (e)	-	9,521,818
KfW 11300 (f)	-	9,611,198
BEI 25709 (i)	89,742,370	98,390,500
BEI 25710 (i)	97,425,565	105,910,484
ING+BRD (j)	58,712,220	95,363,100
Unsecured bonds (k)	200,000,000	200,000,000
Total long-term loans from credit institutions, out of which:	509,355,179	636,554,058
Less: Current portion of long-term loans	(314,169,245)	(134,624,060)
Total long-term loans net of current installments	195,185,934	501,929,998

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No.	Loan name	Date granted	Loan value (foreign currency)	Balance at 31.12.2017 (foreign currency)	Balance at 31.12.2017 (RON)	Interest rate	Maturity as per loan
1	NIB PI 02/18	19.02.2003	18,441,684.50 USD	878,175.45 USD	3,417,420	LIBOR 6M+0,9%	16.04.2018
2	BIRD 7181	15.07.2003	71,622,715.47 EUR	9,357,494.80 EUR	43,603,118	last transmitted 0%	15.01.2020
3	NIB PI 03/5	12.11.2004	23,000,000.00 EUR	2,300,000 EUR	10,717,310	EURIBOR 6M+0,85%	17.09.2018
4	NIB PI 02/37	25.02.2004	12,927,944.17 EUR	1,231,232.77 EUR	5,737,176	EURIBOR 6M+0,9%	17.09.2018
5	BEI 25709	05.08.2010	32,500,000.00 EUR	19,259,259.30 EUR	89,742,370	3.596%	10.09.2025
6	BEI 25710	05.08.2010	32,500,000.00 EUR	20,908,119.65 EUR	97,425,565	3.856% and 2.847%	11.04.2028
7	ING+BRD	26.07.2012	42,000,000.00 EUR	12,600,000 EUR	58,712,220	EURIBOR 6M+2,75%	13.02.2019
8	Unsecured Bonds	19.12.2013	200,000,000.00 RON	200,000,000 RON	200,000,000	6.1%	19.12.2018
TOTAL					509,355,179		

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14. LOANS (continued)

The 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 amount due as of December 31st, 2017 amounts to USD 878,175. The loan was granted to finance the rehabilitation of the Slatina 400/220 kV electrical substation. The loan bears a variable interest rate of six months LIBOR plus a 0.9% margin. Repayment is scheduled over 10 years in 20 instalments, from 2008 to 2018.

b) Loan no. 7181 from IBRD

The loan from IBRD was granted on July 15th, 2003 for the objective "Electricity Market". The total amount outstanding as of December 31st, 2017 is EUR 9,357,495. 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, 2017 is EUR 2,300,000. The interest rate is 6 month EURIBOR plus 0.85%, repayment is performed biannually, in equal instalments starting March 15th, 2009, with the last instalment being scheduled 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, 2017 is EUR 1,231,233. The interest rate is 6 month EURIBOR plus 0.90%, repayment is performed biannually, in equal instalments starting September 15th, 2008, with the last instalment being scheduled on September 17th, 2018.

e) Loan no. 10431 from KfW

The loan has been granted by KfW on August 12th, 2004 for the objective "Rehabilitation of the Sibiu Sud 400/220/110 kV electrical substation". As of December 31st, 2017, the loan was repaid in full. The interest rate is 6 months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

f) Loan no. 11300 from KfW

The loan has been granted by KfW on August 12th, 2004 for the "Rehabilitation and modernization of the Bucuresti Sud 400/220/100 kV electrical substation". As of December 31st, 2017, the loan was repaid in full. The interest rate is 6 months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

g) Loan 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. EIB loan no. 25709 is not guaranteed, while EIB loan no. 25710 is guaranteed by CitiBank Europe PLC, Dublin – Romania branch. The repayment period is of 15 years, with a grace period of 2 years. The repayment is scheduled from 2012 to 2025 for EIB loan no. 25709 (on 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, 2017 for the EIB loan no. 25709 is EUR 19,259,259 and for EIB loan no. 25710 EUR 20,908,120.

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14. LOANS (continued)

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.

h) 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 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 total amount outstanding as of December 31st, 2017 is EUR 12,600,000.

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.

i) 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 are due on December 19th, 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, 2017, the financial indicators corresponding to loan agreements, including from bonds issue, were met. The long-term portion of loans will be repaid as follows:

	December 31st, 2017	December 31st, 2016
Between 1 and 2 years	51,449,375	311,711,992
Between 2 and 5 years	68,912,530	95,401,520
Over 5 years	74,824,029	94,816,486
Total	195,185,934	501,929,998

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

All the long-term loans, except for 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, 2017, the long-term loans guaranteed by the Romanian Government through the Ministry of Public Finances are: BIRD 7181, NIB PIL 03/5, NIB PIL 02/18 and NIB PIL 02/37.

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

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

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

Short-term loans

The short-term Loans are detailed as follows:

	December 31st, 2017	December 31st, 2016
Current portion of long-term loans	314,169,245	134,624,060
Interest on long and short-term loans	2,460,222	3,140,317
Interest on bonds	434,521	440,555
Total short-term loans	317,063,988	138,204,932

Loans contracted for the current activity

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

This was guaranteed by:

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

On December 31st, 2017, the credit line is not used.

15. 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 28, under *Remuneration of the Company's management*.

The long-term benefits granted 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 labor 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 Mr. Daniel Gher vase.

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The obligations regarding employee benefits are as follows:

	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Anniversary premiums	24,339,697	20,697,649
Retiree premiums	12,010,992	11,482,723
Free energy provided to current and retired employees	16,296,217	11,033,095
Benefits for the employment contract termination	-	78,385
Maternity premiums	-	13,123
Total	<u>52,646,906</u>	<u>43,304,975</u>

As of December 31st, 2017 and December 31st, 2016, the Company has an obligation regarding long-term employee benefits, amounting to 52,646,906 and 43,304,975. The estimation of these obligations was made taking into account the following:

- electricity price at December 31st, 2017 and the price expected for future periods. The price estimated for the following periods is calculated as a forecast based on previous observed data for energy price;
- base salary at December 31st, 2017 and base salaries for future periods estimated by the actuary (a salary increase was taken into consideration, depending on the future development of the consumer price index);
- number of employees as of December 31st, 2017 and estimated annual number of Company employees based on projected rates of departure from the Company and statistical data on population mortality provided by INS;
- discount rate estimated by the actuary is based on the target level of inflation for the eurozone and an investment rate of return lower than 2%, a value which is considered desirable because it allows a long-term balance of financial markets.

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	December 31st, 2016	Interest cost	Cost of current service	Payments from provisions	Actuarial loss for the period	December 31st, 2017
Benefits pertaining to anniversary premiums to be granted to current employees	20,697,649	291,633	689,558	1,597,678	4,258,535	24,339,697
Benefits pertaining to maternity premiums to be granted to current employees	13,123	-	-	-	(13,123)	-
Benefits pertaining to retiree premiums of current employees	11,482,723	126,861	422,554	1,144,725	1,123,580	12,010,992
Benefits pertaining to premiums granted for the labor agreement termination	78,385	-	-	-	(78,385)	-
Benefits pertaining to the counter value of electricity to be paid to current employees after retirement	6,678,368	105,443	332,554	-	919,529	8,035,894
Benefits pertaining to the counter value of electricity paid to current retirees	4,354,727	105,154	-	579,834	4,379,826	8,260,323
	43,304,975	629,091	1,444,666	3,321,787	10,589,962	52,646,906

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

	December 31st, 2017	December 31st, 2016
Discount rate	Values in the range 3.5% - 4.6% set based on the government securities transactions on the interest curve in lei, without adjustments,	the interest curve in lei, without adjustments, or December 0.975%; 1.393%; 1.799%; 2.197%; 2.565%
For the first 5 years	secondary market and correlated with the development of the inflation target level set by NBR for the following years. A long-term inflation of 2% per annum and a real return of 1.86%	the interest curve in lei, without adjustments, supplied by EIOPA for December 2016, with a peak of 4.587% for 25 years and dropping to 4.358% for 85 years
For more than 5 years		4% in the first 3 years, 3% in the 4 th year and 2% in the remaining years
Salary increase	The wages follow the inflation rate development.	

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	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Providers - electricity market	538,923,244	591,678,777
Asset providers	62,898,568	76,404,309
Providers of other activities	27,782,443	27,546,104
Amounts due to the employees	5,866,258	5,291,891
Other liabilities	64,466,306	173,027,119
Total	<u>699,936,819</u>	<u>873,948,200</u>

- On December 31st, 2017 and December 31st, 2016, outstanding debts on the energy market amounted to 538,923,244 and 591,678,777 respectively, and presented the following structure:

	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Suppliers on the electricity market, out of which:		
- suppliers – operational activity – energy	110,803,907	122,864,250
- suppliers - balancing market	204,980,467	286,774,831
- suppliers in the bonus support scheme for the promotion of high-efficiency cogeneration	223,201,870	182,039,696
Total	<u>538,923,244</u>	<u>591,678,777</u>

- The decrease of liabilities to suppliers from the operational activity – energy came as a result of the payment of outstanding obligations on the electricity market as of December 31st, 2016.
- The decrease of liabilities to suppliers on the balancing market was due to the decrease of the amount of transactions on the balancing market in December 2017 compared to December 2016, causing an increase of liabilities to suppliers on this market, outstanding as of December 31st, 2017 compared to December 31st, 2016.

The providers on the electricity market are represented mainly by: SC Hidroelectrica SA, Electrocentrale Bucuresti, RAAN, Complex Energetic Oltenia, Mavir, Complex Energetic Hunedoara, Romgaz SA, OMV Petrom. On December 31st, 2017, their share was ca. 88% in the total number of energy suppliers.

- The increase in debts related to the support scheme towards the suppliers (producers) was determined by withholding from payment the cogeneration bonus and the ante-overcompensation owed to producers in the account of the Company's receivables not collected from the same producers in the support scheme, represented by the overcompensation of the period 2011-2013, 2015 and 2016 by applying the provisions of Art. 17 (5) of Order no. 116/2013 of the ANRE Chairman.

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16. TRADE AND OTHER PAYABLES (continued)

On December 31st, 2017, 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 cogeneration bonus and ante-overcompensation for the years 2014 and 2015, as well as the bonus not granted for the years 2015 and 2016. The amounts representing the debts of the Company regarding the support scheme towards Electrocentrale Bucuresti, RAAN and CET Govora have been retained from payment on the grounds of Article 17 (5) of the Order of the ANRE Chairman no. 116 / 2013, because the suppliers (producers) registered payment obligations towards the Company regarding the bonus type support scheme.

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

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

CNTEE Transelectrica 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 installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art. 17 (5) of 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, by Civil sentence no. 3185/November 27th, 2015, the ANRE Decision no. 738/March 28th, 2014 on setting the overcompensation amount for the timeframe 2011 - 2013, CET Govora SA no longer respected the obligations undertaken according to the Agreement.

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

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

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

- The decrease of the balance of asset suppliers on December 31st, 2017 compared to December 31st, 2016 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 decrease compared to December 31st, 2016.

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

	December 31st, 2017	December 31st, 2016
Different Creditors	31,958,422	134,201,186
Clients - creditors	20,823,604	29,283,054
Dividends to be paid	2,414,333	1,312,744
Other liabilities	9,269,947	8,230,135
Total	64,466,306	173,027,119

On December 31st, 2017, the position "different creditors" in the amount of 31,958,422 mainly represents the net position of the support scheme for high-efficiency cogeneration, which on December 31st, 2017 registers a debt position amounting to 30,451,865 (December 31st, 2016: 128,272,529), down from December 31st, 2016 as a result of the decrease in value of the high-efficiency cogeneration contribution.

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

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

"Customers creditors" on December 31st, 2017 amounted to 20,823,604, out of which 10,276,407 represent amounts collected in advance from MAVIR and 10,407,976 represent amounts collected in advance from OPCOM within the transactions related to the price coupling mechanism.

On December 31st, 2017, the dividends owed and unpaid to the Company's shareholders amount to 2,414,333, out of which the amount of 659,435 is related to dividends distributed from the profit of the year 2016 and the amount of 997,617 is related to dividends distributed from the profit unallocated, highlighted in the account balance "Other Revenues – Own sources of funding from profits" based on the Decision no. 11/16.10.2017 of the General Assembly of Shareholders.

These amounts are available to the shareholders through the payment agent.

Other debts amounting to 9,269,947 are mainly represented by guarantees for the proper execution of service contracts on the electricity market concluded by CNTEE Transelectrica SA, amounting to 8,400,226.

ProvisionsAs of December 31st, 2017 and December 31st, 2016, the provisions are as follows:

	December 31st, 2017	December 31st, 2016
Provisions for litigations	2,992,215	3,351,880
	38,498,154	
Provisions for mandate contracts		42,354,707
Provisions for the shareholding fund for employees' profit	44,799	7,968,215
Other provisions	10,019	126,976
TOTAL	41,545,187	53,801,778

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	Provisions for litigations	Share-based payment transactions	Provisions for the shareholding fund for employees' profit	Other provisions
Balance on January 1st, 2017	3,351,880	42,354,707	7,968,215	126,976
Additions in provisions (profit and loss account)	6,401		-	7,723
Reversal of provisions (profit and loss account)	(366,066)	(3,856,553)	(7,923,416)	124,680
Additions in provisions (AERG)	-	-	-	-
Reversal of provisions (AERG)	-	-	-	-
Balance on December 31st, 2017	2,992,215	38,498,154	44,799	10,019

Provisions for litigations outstanding as of December 31st, 2017 amounting to 2,992,215 consist mainly of provisions created for the litigation with the OPCOM subsidiary amounting to 2,670,029 regarding the fine imposed following 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 lei as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 37,828 (see Note 26 iii).

Other provisions in the amount of 10,020 represent provisions made for unpaid leave.

As of December 31st, 2017, the Company registered a provision of 38,498,154 (42,354,707 as of December 31st, 2016) for the annual variable component owed to the Directorate and Board of Supervisors members (see Note 28).

The provision amounting to 44,799 is mainly represented by the provision created for the employees' profit sharing for the financial years 2013, 2015 and 2016, amounts not granted until December 31st, 2017.

17. INCOME TAX

The income tax for the years 2017 and 2016 is presented as follows:

	2017	2016
Current income tax expense	(23,756,672)	(66,696,654)
Net income from deferred income tax	5,149,451	4,468,243
Total	(18,607,221)	(62,228,411)

The tax on the current and deferred income of the Company for 2017 and 2016 is determined at a statutory rate of 16% and is applicable for 2017 and 2016.

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Reconciliation of the effective tax rate:

	<u>2017</u>	<u>2016</u>
Profit before income tax	52,023,848	(28,852,692)
Income tax at statutory rate of 16%	8,323,816	53,534,393
Effect of non-deductible expenses	38,443,660	21,529,593
Effect of non-taxable income	(22,983,684)	(5,260,670)
Taxable revaluation reserve	3,734,828	4,906,450
Legal reserve	(416,191)	(2,712,466)
Income tax exempted	(2,112,173)	(4,625,260)
Other effects	(6,383,035)	(5,143,629)
Total	(18,607,221)	62,228,411

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The movement pertaining to deferred taxes during 2017 and 2016 is as follows:

Elements	Balance at January 1 st , 2016	Recognized in profit and loss	Recognized directly in AERG	Balance at December 31 st , 2016	Recognized in profit and loss	Recognized directly in AERG	Balance at December 31 st , 2017
Property, plant and equipment – useful life	3,036,056	1,283,825	-	4,319,881	487,242	-	4,807,123
Property, plant and equipment – revaluation reserves	42,096,791	(4,520,670)	-	37,576,121	(3,605,915)	-	33,970,206
Property, plant and equipment financed by subsidies	(1,043,042)	(563,157)	-	(1,606,199)	(509,471)	-	(2,115,670)
Obligations regarding employee benefits	(3,986,704)	1,914,306	-	(2,072,398)	(1,013,028)	-	(3,085,426)
Interconnection estimate	(1,233,010)	(12,639)	-	(1,245,649)	(507,551)	-	(1,763,200)
Provisions	(4,206,845)	(2,569,908)	-	(6,776,753)	-	-	(6,776,753)
Tax (assets)/liabilities	34,663,246	(4,468,243)	-	30,195,003	(5,158,723)	-	25,036,280

Deferred tax consists of:

	Asset		Liability		Net	
	31-dec-17	31-dec-16	31-dec-17	31-dec-16	31-dec-17	31-dec-16
Property, plant and equipment – useful life	(1,244,583)	(854,269)	6,061,706	5,174,150	4,807,123	4,319,881
Property, plant and equipment – revaluation reserves	(3,605,916)	(4,520,669)	37,576,121	42,096,790	33,970,205	37,576,121
Property, plant and equipment financed by subsidies	(2,140,227)	(1,610,928)	24,557	4,729	(2,115,670)	(1,606,199)
Obligations regarding employee benefits	(3,085,426)	(2,072,398)	-	-	(3,085,426)	(2,072,398)
Interconnection estimate	(1,763,200)	(1,245,649)	-	-	(1,763,200)	(1,245,649)
Provisions	(6,776,752)	(6,776,753)	-	-	(6,776,753)	(6,776,753)
Net tax (assets)/liabilities	(18,616,104)	(17,080,666)	43,652,384	47,275,669	25,036,280	30,195,003

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	2017	2016
Result for the period	28,267,175	272,361,543
Number of ordinary shares at the beginning and at the end of the period	73,303,142	73,303,142
Basic and diluted earnings per share (lei/share)	0.3856	3.7155

19. OTHER TAX AND SOCIAL SECURITY LIABILITIESOn December 31st, 2017 and December 31st, 2016, other taxes and social insurance obligations included:

	December 31st, 2017	December 31st, 2016
Contribution to social insurance funds	5,097,678	4,981,239
Payroll tax	1,913,700	1,928,808
Other taxes to pay	1,676,814	1,701,162
Total	8,688,192	8,611,209

On December 31st, 2017, the Company registered payment obligations for contributions to social insurance funds, payroll tax and other taxes that were paid in the month of January 2018.

Furthermore, on December 31st, 2017, the Company also registered taxes on dividends amounting to 90,586, taxes due in January 2018.

20. 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 services provided on the electricity market are presented as follows:

	Average Price for the transmission service	Average Tariff for technological system services	Average Price for the functional system services
Order no. 48/2017 for the period July 1 st – December 31 st , 2017	16.86	9.39	1.11
Order no. 27/2016 for the period July 1 st 2016 - June 30 th , 2017	18.70	11.58	1.30
Order no. 93/2015 for the period July 1 st - June 30 th , 2016	20.97	12.58	1.17

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

The zonal tariffs regarding the transmission service for the injection of electricity into the transmission grid (T_G) and for drawing electricity off the transmission grid (T_L) have been approved by ANRE Order no. 48/2017, starting with July 1st, 2017.

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The amount of electricity delivered to consumers to whom the prices for services provided on the electricity market were applied, is presented as follows:

	2017	2016
The amount of electricity delivered to consumers (MWh)	54,753,325	53,523,021

The operating revenues earned in 2017 and 2016 are as follows:

	2017	2016
Transmission revenues	970,693,550	1,056,520,255
Revenues from allocating the interconnection capacity	75,726,834	82,232,459
Revenues from reactive energy	6,316,668	6,954,413
Revenues from Inter TSO Compensation (ITC)	1,106,452	253,892
Revenues from Own Technological Consumption (CPT) transactions	785,608	295,781
Transmission Revenues - total	1,054,629,112	1,146,256,800
Functional System Service Revenues	65,979,920	66,139,093
Revenues from technological system services	582,329,914	648,801,922
Revenues from unplanned shifts on DAM	2,436,720	1,398,572
System Service Revenues - total	650,746,554	716,339,587
Revenues on the balancing market	1,304,613,489	814,079,670
Other revenues	50,327,846	45,827,232
Total revenues	3,060,317,001	2,722,503,289

Transmission revenues

Given the rise in the amount of electricity delivered to consumers in 2017 compared to 2016, namely of 2.3% or 1,230,304 MWh, the income from the transmission service has registered a decrease in the amount of 85,826,705, determined by the decrease of the average tariffs approved by ANRE (according to the table on the average tariffs approved by ANRE for the analyzed timeframes, presented above), under the conditions laid down by the transport methodology. Thus, the tariff calculated as an average of the tariffs for the year 2017 - 17.78 lei was lower by 10.34% compared to the tariff calculated as average of the tariffs for the year 2016 - 19.83 lei

Functional system service revenues

In 2017, the revenues from functional system services registered a decrease with the amount of 159,173 compared to 2016, determined by the decrease 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).

Revenues from allocating the interconnection capacity

In 2017, the income from the interconnection capacity allocation has registered a decrease compared to 2016, in the amount of 6,505,625, corresponding to the level of usage of the available interconnection capacity by traders on the electricity market. The mechanism for the allocation of interconnection capacity consists in organizing annual, monthly, daily and intra-daily auctions. The annual, monthly and intra-daily are explicit - only the transmission capacity is bid on, and the daily ones with Hungary are implicit - are allocated simultaneously with the energy and capacity via the coupling mechanism.

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

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20. OPERATING REVENUES (continued)

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

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

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

Revenues from technological system services

The revenues from technological system services have registered a decrease in 2017 compared to 2016 in the amount of 66,472,008, mainly determined by the decrease 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), given that the amount of electricity delivered registered an increase of 2.3%.

The income from the ancillary services gained in 2017 was lower with 78,993,262 compared with the expenditures on the purchase of ancillary services that were achieved, while in 2016, the revenues from technological system services were higher with the amount of 87,774,549. The loss was caused by the unfavorable conditions on the energy market, translated in higher average unit prices in auctions compared to the foreseen unit prices on which the tariff calculation for technological system services was based on, as well as the partial recovery of profits made in the previous year on a zero profit segment. This amount lowers the gross profit of the Company reported on December 31st, 2017.

Revenues on the balancing market

The income from the balancing market have registered an increase in 2017 compared to 2016, with the amount of 490,533,819, determined by:

- the high degree of unpredictability and volatility of production from renewable sources (especially wind).
- over-contracting / subcontracting on the markets prior to the balancing market (given that PRE s did not have significant notification imbalance values) and reduced participation / trading on the intra-day electricity market. The increasing of the negative imbalance registered at the level of the suppliers of electricity on the balancing market, ie increasing the imbalance between the notified net contractual position and the actually supplied energy;
- the very low temperatures recorded in the first quarter of 2017, which generated the recording of higher values of the electricity consumption in the operation of the NES;
- the increase in electricity consumption amid the severe weather phenomena recorded in July and August 2017 (heat in late July and early August, strong wind with storm in July, so the production in wind power plants varied a lot during the day and with large production variations from one hour to the next);
- Hydraulic evolution (low hidroaucticity).

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

Other revenues

"Other revenues" earned in 2017, have been higher than the ones earned in 2016. This development was mainly determined by the collection of fines and penalty payments in 2017, amounting to 6,020,590 (Arelco Power SRL with the amount of 3,215,471 and Enol Grup SA with the amount of 2,541,312, etc), compared to the collection of fines and penalty payments in 2016, amounting to 30,833.

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

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The system operating and balancing market expenses are as follows in 2017 and 2016:

	2017	2016
Expenses on own technological consumption	206,992,035	182,980,673
Expenses on congestions	241,042	2,931,330
Expenses on electricity consumption in RET substations	14,411,115	15,382,428
Expenses with functional system services	16,336,006	12,687,230
Expenditures on Inter TSO Compensation (ITC)	19,936,533	16,775,121
Total Operational Expenses	257,916,731	230,756,782
Expenses regarding the technological system services	661,323,176	561,027,373
Expenses on the balancing market	1,304,613,489	814,079,670
Total	2,223,853,396	1,605,863,825

Expenses on Own Technological Consumption

These represent the acquisition expenses of electricity in the free market of energy for covering its own technological consumption (CPT) in RET.

In 2017, these expenses have increased with the amount of 24,011,362 mil lei compared to the ones registered in 2016, given the reduction of the electricity quantity necessary to cover the OTC in PTG with ca. 4.6% (from 1,014,566 MWh in 2016, down to 968,042 MWh in 2017).

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

Thus, in 2017, the electricity for covering the OTC has been purchased on the free energy market, namely on the Centralized Market for Electricity Bilateral Contracts (CMBC), the Day-Ahead Market (DAM), the Balancing Market (BM) and the Intra-Day Market (IDM) at the average purchase price of 213.7 lei/MWh, compared to the average purchase price of 180.3 lei/MWh in 2016.

Expenses on congestions

Congestions (network restrictions) are requests for electricity transmission beyond the technical capacity of the network, requiring corrective actions from the transmission and system operator and occur in the situation in which, in the programming of the operation or the operation in real time, the power flow between two nodes or system areas leads to the non-accomplishment of the safety parameters in the operation of a power system. In 2017, 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.

The registered congestion expenses in 2016 amounted to 2,931,330 resulted to a great extent from accidental disconnections as a consequence of bad meteorological conditions recorded in the first part of 2016 (Tariverde – Tulcea Vest 400 kV OHL, in the month of January 2016, Iernut – Gadalin 400 kV OHL, Iernut – Baia Mare III 220 kV OHL, in the month of June 2016).

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

Expenses with 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 have registered an increase amounted to 3,648,776 in 2017 compared to 2016, mainly determined by the increase 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, due to the rise in prices on the centralized electricity markets. The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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Expenditures on Inter TSO Compensation (ITC)

ITC expenses, amounting to 19,936,533, 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 2017, these expenditures have increased by 3,161,412 compared to 2016.

Expenses regarding 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. The contracting of these services is performed:

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

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

For the period January 1st - March 31st, 2017, the purchase of technological system services was conducted in the regulatory regime (slow tertiary reserve) according to GD no. 844/November 9th, 2016, as subsequently amended and supplemented, by which the "Winter Program in the Energy Sector for Assuring the safety and stability of the NES" was approved.

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

In the period July 1st - December 31st, 2017, the purchase of technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 906/June 22th, 2017) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 907/June 22th, 2017).

In 2017 the technological system services expenses registered an increase compared to 2016 amounting to 100,295,803, generated by the purchase prices for technological system services on the competitive market which were higher than the regulated prices.

A significant influence in the rise of prices for purchasing technological system services on the competitive market was generated by the increase in prices registered on the electricity market in 2017.

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.

Expenses on the balancing market

The expenses from 2017 related to the balancing market amounted to 1,304,613,489 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.

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	2017	2016
Expenses on staff wages	127,077,882	123,760,248
Social expenses	6,224,282	6,011,964
Expenses with employee vouchers	8,522,379	9,004,373
Expenses regarding employees' shareholding to the profit of the previous year	6,443,745	6,603,220
Expenses of the mandate contract and other committees, commissions	1,722,908	3,579,344
Expenses for social security and protection	36,753,427	38,384,677
Provisions constituted for expenses with wages and similar expenses	(9,068,671)	23,629,139
Other expenses	899,259	894,401
Total	178,575,211	211,867,366

The lowering of the employee expenses in 2017 compared to 2016 has been mainly determined by the reduction of expenses pertaining to the constitution of provisions related to mandate contracts and provisions related to other wage and assimilated expenses.

ii) Average number of employees

As of December 31st, 2017 and December 31st, 2016, the average number of employees working under an indefinite individual employment contract is:

	2017	2016
Average number of employees	2,063	2,063

23. OTHER OPERATING EXPENSES

	2017	2016
Other expenses on third party services	48,979,955	50,087,334
Postal expenses and telecommunication fees	1,191,817	1,295,971
Expenses on rents	8,331,468	7,846,021
Operating expenses related to the impairment of current assets, out of which:	58,252,565	21,323,130
- net expense with adjustments for impairment of trade receivables	22,07,688	12,59,534
- (income)/net expenses with adjustments for impairment of various debtors	34,976,142	6,230,412
- net expenses with adjustments for impairment of inventories	1,203,735	2,501,184
	68,202,618	53,167,911
Other expenses, out of which:	68,202,618	53,167,911
- expenses related to taxes and levies (tax on natural monopoly, other local taxes and levies)	603	3,929,041
- expenses related to provisions for other operating expenses	1,164,391	6,369,871
- travel expenses	5,265,843	3,012,478
- expenses related to international levies	3,121,617	2,070,747
- expenses related to commodities	3,093,953	2,333,148
- expenses related to purchased electricity for administrative consumption	2,189,564	22
- expenses related to late interest owed to the state budget, out of which:	99,927,934	-
- expenses related to banking services and other similar services	-	-
- expenses related to staff transportation	1,290,710	1,355,695
- expenses related to purchased natural gas	1,022,807	1,137,217
- expenses related to studies and research	953,959	984,042
- expenses related to disasters and other subsequent events	760,566	1,210,352
- expenses related to disasters and other subsequent events (registered with ST Constanta and ST Craiova)	562,711	140,723
- other operating expenses	6,991,048	-
Total	184,958,423	133,720,367

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Out of the amount of the late payment increases due to the state budget the amounts due in the amount of 24,200,846 (the amount obtained after the change by recording the loss resulting from the additional payment obligations recorded in the ANAF-DGAMC tax inspection report in the amount of 75,727. 088, as the result of the correction of accounting errors, according to the Address no. 1649 of 16.04.2018), the amount of 24,163,468 refers to the ANAF-DGAMC findings for the period 2005-2010, there are both additional debits and corresponding accessories unprocessed technological services provided in the framework contracts approved by ANRE, for which Transelectrica records revenues from penalties. At the same time, ANAF-DGAMC retained additional debits and accessories corresponding to the findings of the Court of Accounts regarding the expenditures that were not aimed at the continuous training of the employees and which are not vocational training and for which the RCC Decision no. 14/2011.

In 2017, the Company challenged the ANAF Taxation Decision and, given that until March 13, 2018, the ANAF-DGAMC had failed to resolve the appeal, it requested the annulment of the Decision by the Court of Appeal of Bucharest file No 1802/2/2018.

The Company has considered that the tax base was not reasonably determined by ANAF, depending on the fully regulated nature of the activity on the electricity market, this being determined in proportion to the number and value of the invoices issued in the period under review. Transelectrica has been entitled to bring an action in court because it believes that ANAF did not consider all data and documents relevant to the estimate as required by the Fiscal Procedure Code applicable at that time. Thus, the Company sued ANAF at the Bucharest Court of Appeal in August 2012 for the recovery of the sum and requested in the probatory case to be admitted the proof sample and the evidence with the judicial expertise.

On September 18th, 2013, the expert report was submitted, which was filed with the case file on September 20th, 2013. On October 18th, 2013, the parties filed objections regarding the report of judicial expertise that were approved by the Court of the Call on the deadline of November 15th, 2013, and which were communicated to the appointed expert. On March 7th, 2014, the expert presented the response to the objections formulated by the Company. In relation to the revenues envisaged by ANAF, in relation to which ANAF estimated the value added tax collected in the sum of 16,303,174, the report of the judicial accounting expertise found the existence of unjustified incomes amounting to 551,013, the amount at which the VAT and its accessories should have been calculated. The hearing was postponed to take note of the content of the response to the objection to the expert report.

At the deadline of 30.04.2014, the solution pronounced by the substantive court - Bucharest Court of Appeal, Section VIII of the Administrative and Fiscal Contentious Division (Decision No. 1356/2014) in File no. 6657/2/2012 was as follows: "Rejects the request of the applicant CNTEE Transelectrica SA (Appeal against the ANAF fiscal act)". The company filed an appeal by formulating the application filed in the file, filed in this file, with a court term set on 07.04.2016, the hearing held at the High Court of Cassation and Justice, the Administrative and Fiscal Litigation Division. On 07.04.2016, due to the lack of procedure, a new deadline was set for 02.06.2016, the term in which the court stayed in pronouncement, postponing the pronouncement for 16.06.2016.

At this time, the High Court of Cassation and Justice - the Administrative and Fiscal Contentious Division issued the decision no. 1945 / 16.06.2016, ordering the following: "Accepts the request and puts the appellant-plaintiff within the time limit for declaring the appeal. Dismisses the appeal filed by the National Power Grid Company "Transelectrica" against the Sentinfo no.1365 of 30 April 2014 of the Bucharest Court of Appeal - the 8th Administrative and Tax Appeals Division as unfounded. Irrevocable. Pronounced in public session, today, June 16, 2016. "Decision No. 1945 / 16.06.2016 pronounced by the High Court of Cassation and Justice was communicated to the Company by photocopying it.

Against the decision No. 1945 / 16.06.2016 was filed an appeal for annulment filed with the High Court of Cassation and Justice. On March 1, 2017, the High Court of Cassation and Justice ordered by decision no. 779 the following: "rejects the exception of the inadmissibility of the contestation in annulment formulated by the contestant Transelectrica SA, invoked by the intimation of the General Directorate for Administration of Large Contributors. Dismisses the appeal in annulment formulated by the contestant 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 ". Until the date of preparation of these financial statements, the Company was not informed of the drafting of the Decision no. 779 / 01.03.2017.

The additional payment obligations established by ANAF-DGAMC through the Taxation Decision no. 62/2011 has been recorded in the *Other operating expenses* chapter, together with the resumption of the provision made in the financial years 2012 and 2014.

In "operating expenses related to impairment adjustments for current assets" are included adjustments for impairment of receivables for:

- Elcomex IEA SA in the amount of 31,868,316;
- Arelco Power SRL in the amount of 18,782,312;

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- Other unscheduled clients and debtors in the amount of 7,601,937 (Elsaco Energy SRL, Eva Energy, Enol Group SA, CET Govora SA, PetProd SRL, etc.).

24. NET FINANCIAL RESULT

	2017	2016
Interest revenues	5,428,137	5,666,055
Revenues from exchange rate differences	11,430,141	21,157,006
Other financial revenue	2,240,682	3,136,969
Total financial revenue	19,098,960	29,960,030
Expenses on interest	(21,560,125)	(23,995,214)
Expenses from exchange rate differences	(18,659,073)	(22,407,867)
Other financial expenses	-	(585,227)
Total financial expenses	(40,219,198)	(46,988,308)
Net financial result	(21,120,238)	(17,028,278)

The decrease of the net financial result regarding the exchange rate differences in 2017 compared to 2016, amounting to 4.091.960, was negatively influenced by the evolution of the exchange rate of the national currency in relation to foreign currencies in which the Company has contracted bank loans for financing the investment programs (Euros, Dollars), which made that the decrease in exchange-rate income to be only partly offset by exchange and interest rate fluctuations, amid a 30% decrease in the Other Financial Income position.

The average exchange rate of the national currency registered in 2017, compared with the one registered in 2016 is as follows:

Currency	2017	2016
Lei / Euros	4.5681	4.4908
Lei / US Dollars	4.0525	4.0592

25. LEGISLATIVE AND FISCAL FRAMEWORK

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

26. COMMITMENTS AND CONTINGENCIES

i) Commitments

As of December 31st, 2017 and December 31st, 2016, the Company had commitments amounting to 1,121,769,861 and 1,036,117,363 mainly representing ongoing contracts related to the investment program for the modernization and upgrading of the transmission grid.

ii) Land plots used by the Company

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

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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.

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.

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 – Section II Civil, 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 from the support scheme and withheld from payment by the Company, in its capacity as Administrator of the support scheme, who enforced the provisions of Article 17 (5) of ANRE's Order no. 116 / 2013 (see Note 9).

The amount was enforced by RAAN on July 15th, 2016, as per the Decision issued by the Bankruptcy Receiver Office Ailiesei si Guta in the enforcement file no. 12105/2016.

26. COMMITMENTS AND CONTINGENCIES (continued)

By civil decision no. 843/2015, the Craiova Court of Appeal rejected the appeal filed by CNTEE Transelectrica SA against civil sentence no. 127/10.10.2014, as lacking interest.

Against the decision no. 843/May 11th, 2015 of the Court of Appeal Craiova - Section II Civil, pronounced in the public hearing from May 11th, 2015, in file no. 3616/101/2014, 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 decision is subject to appeal in higher court.

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

Under these conditions, RAAN calculated penalties for late payment of the due cogeneration bonus in the amount of 3,496,914, 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 Litigations, the **file no. 9089/101/2013/a138** was recorded, involving the "presidential ordinance", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities - RAAN – debtor in insolvency.

Through the sentence no. 63/2016, the court ordered the defendant to continue the electricity transmission and system services necessary for continuing the activity throughout the judicial reorganization of the RAAN.

Transelectrica filed an appeal against that decision.

On May 10th, 2016, the Craiova Court of Appeal delivered its judgment no. 457/05.10.2016, which ordered the following: "Dismisses the appeal. Rejects the appeal as ill-founded. Final."

Also, the hearing of the appeal declared by RAAN against the decision of starting the bankruptcy proceedings, subject of file no. **9089/101/2013/a137** before the Court of Appeal Craiova, was postponed until May 31st, 2016, when the case was taken for judgement.

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.

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

The applicant RAAN filed a request to amend the amount of the alleged right, seeking the increased amount of 17,805,680.17 lei from Transelectrica SA.

On November 3rd, 2015, the Bucharest Court, Section VI Civil delivered the sentence no. 6075 / 2015, by which it ordered the following: 'Upholds the application in the way it was completed. Orders the defendant to pay the plaintiff the amount of 17,805,680.lei, representing the equivalent value of the bonus and penalties. Dismisses the application for granting legal expenses, lodged by the plaintiff, as ill-founded. With appeal within 30 days from communication. The appeal is lodged at the Bucharest Court - Section VI Civil.'

The ruling was communicated on July 4th, 2016, according to the registration entry stamp of the correspondence with Transelectrica SA. An appeal was lodged against the sentence. By Hearing protocol from January 12th, 2017, pronounced in the file no. 24206/3/2015, the Court of Appeal Bucharest ordered the postponement of the hearing of the appeal until the final settlement of the file no. 9089/101/2013/a152 on the docket of the Mehedinti Court, on the grounds of Article 413 (1) (1) of the New Civil Procedure Code. With appeal throughout the suspension.

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

- Pending with the Bucharest Court – Section VI Civil the **file no. 26024/3/2015** was recorded, involving the "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN. By the application for summons filed by the applicant, they asked Transelectrica SA to pay the amount of 10,274,679.11. 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.

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

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

- Pending with the Bucharest Court – Section VI Civil the file no. **3694/3/2016** was recorded, involving the "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN. By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 15,698,722.lei. 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. With appeal throughout the suspension.

- Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the **file no. 9089/101/2013/a140** was recorded, involving the "claims in the amount of 86,513,431", 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 86,513,431lei. On May 19th, 2016, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, pronounced a hearing protocol by which it ordered the following: "on the grounds of Article 413 (1) of the Civil Procedure Code, suspends the case until the settlement of the file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice. With appeal throughout the suspension. Pronounced today, May 19th, 2016, in open court."

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

Through the sentence no. 387/March 20th, 2014, the Mehedinti Court confirmed the reorganization plan of the debtor Autonomous Administration for Nuclear Activities, proposed by the insolvency administrator Tudor & Partners SPRL and voted on by the General Assembly of Creditors according to the minutes of February 28th, 2014.

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

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

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

Together with filing the receivables declaration in the bankruptcy proceedings of RAAN, Transelectrica SA may invoke the provisions of Article 52 of Law no. 85/2006, applicable to the bankruptcy proceedings for RAAN, provisions taken from Article 90 of Law no. 85/2014 concerning the creditor's right to invoke the compensation of his receivable with the one of the debtor, when the legal provisions on compensation in legal proceedings are completed on the date of commencement of the procedure. Transelectrica SA has been registered in the table of debtor RAAN with the amount of 11,264,777.30 lei under the category of receivables resulting from the continuation of the debtor's activity, the amount requested by our company being equal to 89,360,986.06 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 78,096,208.76 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,

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namely on September 18th, 2013. Objection was filed against the Table. The Mehedinti Court approved the evidence with the audit expertise. The parties lodged objections against the audit expertise report, which were admitted by the court who set the hearing on February 22nd, 2018.

- Following a verification conducted in 2013, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification. The decision and protocol issued by the Court of Auditors have been appealed before the Court of Appeal Bucharest, the file no. 1658/2/2014 being constituted. At the hearing from January 20th, 2016, the court postponed the case so that the appointed accounting expert can express his point of view regarding the objections of the plaintiff against the expert report concerned and so that the technical expert can perform the expertise. On June 29th, 2016, the court postponed the case so that the technical expertise report may be finished. The next hearing was set on October 26th, 2016, and until the date of drafting this report, no other changes have been registered.

At the hearing from February 8th, 2017, the objections against the expert report have been notified. Hearing: 22.03.2017.

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

On June 26th, 2014, the ANRE Order no. 51 was issued, published in the Official Journal under no. 474/June 27th, 2014 on the approval of the average tariff for the transmission service, the tariff for the system service and the zonal tariffs for the transmission service, payable to the National Power Grid Company "Transelectrica" - SA, and the repealing of Addendum no. 1 of the ANRE Chairman's Order no. 96/2013 regarding the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the tariffs for the reactive electrical energy, payable to economic agents from the electricity sector.

The values taken into consideration for calculating the Regulated Rate on Return (RRR¹) by ANRE, according to the Methodology on establishing the tariffs for the electricity transmission service, approved by ANRE Order no. 53/2013 ("the Methodology") have determined a RRR value of 7.7%.

26. COMMITMENTS AND CONTINGENCIES (continued)

CNTEE Transelectrica SA considers that the enforcement of the provisions of Article 51 of the Methodology on establishing the Beta (β) parameter at the value of 0.432 shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138.4 mil. lei³, having a significant impact on the financial interests of the company.

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

At the hearings from March 25th, 2016, April 22nd, 2016, June 10th, 2016 and March 3rd, 2017, the court postponed the judgement of the cause because of the missing technical expertise report. The next hearing was set for February 13th, 2018.

- 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.

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

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

³ Calculated value compared to the RRR of 8.52%

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On November 24th, 2014, the subsidiary SC OPCOM SA summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086.31 euro (2,585,161.72 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 euro.

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 37,828.08. The action filed by the subsidiary SC OPCOM SA is subject of the **file no. 40814/3/2014** on the docket of the Bucharest Court, Section VI Civil, involving claims, litigation with professionals matter. CNTEE Transelectrica SA has lodged counterclaim against the application for summons in this case, invoking exceptions and defenses on the main issue of the matter regarding the unfounded and unlawful character of the action.

On July 24th, 2015, the Bucharest Court ruled the judgement no. 4275/2015, by which it ordered the following: "Admits the application for summons filed by plaintiff Romanian Gas and Electricity Market Operator - OPCOM S.A. against defendant National Power Grid Company "Transelectrica" S.A. Orders the defendant to pay the plaintiff the amount of 582,086.31 euro, representing the amount paid by the plaintiff in the defendant's stead from the fine in the amount of 1,031,000 euro, imposed by the Decision of the European Commission on March 5th, 2014 in the case no. AT.39984 and of the lawful interest related to the amount of 582,086.31 euro, calculated on June 11th, 2014 and up until the day of the actual payment. Orders the defendant to pay the plaintiff the amount of 37,828.08 lei, as legal expenses. With right of appeal within 30 days from notification. The request for appeal shall be lodged before the Bucharest Court – Section VI Civil."

Against sentence no. 4275/2015, pronounced in the aforementioned file, Transelectrica SA filed an appeal, which was registered on the docket of the Court of Appeal Bucharest. The resolution of the Court of Appeal is the following: Admits the appeal. Changes the appealed civil sentence completely, meaning that it rejects the application for summons as ill-founded. Orders the appellee - plaintiff to pay the trial expenses to the appellant - defendant amounting to 16,129, representing legal stamp duty. With appeal within 30 days from notification. Ruled in open court today, October 10th, 2016. Document: Decision 1517/2016 from October 10th, 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. 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.

In 2014, the company recorded a provision amounting to 2,670,029 for the litigation with the subsidiary SC OPCOM SA.

- In 2013, Conaid Company SRL took legal actions against CNTEE Transelectrica for the unjustified refusal of the latter to sign an addendum to the connection agreement or to sign a new connection agreement, and requested the compensation for costs incurred up to that time, amounted to 17,419,508 lei and loss of profit for the period 2013 - 2033 amounting to EUR 722,756,000. So far, the Company did not conclude an addendum to the connection agreement because the suspensive provisions included therein have not been met by Conaid Company SRL. A new connection agreement would have had to be concluded by March 11th, 2014, the date on which the technical connection permit has expired. On the date of these financial statements, the amounts claimed by Conaid Company SRL were regarded as contingent liabilities as it is unlikely to settle this obligation, there will be necessary outflows of resources embodying economic benefits and the value of obligation cannot be evaluated with sufficient reliability. **The file no. 5302/2/2013** was on the docket of the High Court, involving the obligation of issuing of an administrative document, the procedural stage – second appeal, the hearing being on December 9th, 2015. At this hearing, the High Court of Cassation and Justice admitted, in principle, the second appeals and set the hearing, in substance, of the second appeals on April 8th, 2016, Formation 4, summoning the parties. The case trial was postponed for the date of June 17th, 2016, when the court reserved judgement, postponing the judgement until June 29th, 2016, when it pronounced Decision no. 2148/2016, by which it ordered the following: 'Rejects the exceptions invoked by the appellant - plaintiff S.C. Conaid Company S.R.L., via insolvency administrator RVA Insolvency Specialists SPRL, and by the appellant - defendant National Company for Energy Transportation Transelectrica S.A. Admits the second appeal filed by the defendant National Company for Energy Transportation Transelectrica S.A. against the hearing protocol of February 18th, 2014 and the civil sentence no. 1866 of June 11th, 2014, pronounced by the Court of Appeal Bucharest – Section VIII, Administrative and Fiscal Litigation Section. Partially invalidates the contested protocol and judgment and refers the case to the Bucharest Court – Section VI Civil, for settlement of the application of the plaintiff sought against the National Power Grid Company Transelectrica S.A. Maintains the other provisions of the sentence concerning the plaintiff's action against the National Regulatory Authority for Energy. Rejects the second appeals of the plaintiff SC Conaid Company S.R.L. via insolvency administrator RVA Insolvency Specialists SPRL and the intervenor S.C. Duro Felguera S.A. against the civil sentence no. 1866 of June 11th, 2014 pronounced by the Bucharest Court of Appeal – Section VIII, Administrative and Fiscal Litigation. Rejects the second appeal filed by the defendant National Power Grid Company Transelectrica S.A. against the hearing protocol from March 25th, 2014, pronounced by the Bucharest Court of Appeal - Section VIII, Administrative and Fiscal Litigation. Final. Ruled in open court today, June 29th, 2016.

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On the docket of Bucharest Court – Section VI Civil, the case was registered under no. 12107/3/2017. By civil sentence no. 4364/23.11.2017, the Court admits the exception to the ineligibility of the claim and rejects it as ineligible. It also rejects the motion to intervene in the interest of the plaintiff. With right of appeal within 30 days from notification. The appeal is lodged at the Bucharest Court - Section VI Civil. Sent to the parties via registry today, November 23rd, 2017.

- 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.

- Case file no. 47332/3/2017 on the docket of the Bucharest Court - Section VI Civil, by which the company FF Wind Energy Internațional SRL requests the following against CNTEE Transelectrica SA: - the annulment of the unilateral statement for the termination of the PTG connection agreement no. 85/14.03.2011 issued on March 2nd, 2016 under no. 8295, - ordering the Company to pay the amount of 33 mil. lei as damages following the termination of the agreement and to pay the amount of 45,000,000 euro as the amount of depreciation of the company FF Wind Energy Internațional SRL caused by the impairment of its purpose. Status of the file: in preliminary proceedings for notification of the action and filing statement of defense.

- 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). The company recorded adjustments for value losses for the customers and other receivables in litigation and for the customers in bankruptcy. The Company also acted as plaintiff in a dispute with ANAF as shown in Note 9.

At the same time, the Company is also involved in litigation, with former members of the Directorate and the Supervisory Board, regarding the mandate contracts concluded between the Company and them.

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

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	2017	2016
Guarantees granted, of which:	381,752,861	461,878,512
- letters of guarantee granted – production	44,554,186	36,325,204
- letters of guarantee granted – investments	183,961,869	238,616,854
- other guarantees granted	153,236,806	186,936,454
Guarantees received, of which:	497,215,685	502,121,541
- letters of guarantee received – production	184,226,150	220,878,950
- letters of guarantee received – investments	264,728,801	233,729,248
- other guarantees received	48,260,734	47,513,343

Guarantees granted

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 concluded a loan agreement for issuance of bank letters of guarantee with EximBank SA, the value of which being 29,422,392 as of December 31st, 2017.

On December 27th, 2017, the Company concluded a loan agreement for issuance of bank letters of guarantee with Banca Comerciala Romana amounting to 26,805,370 and valid between January 1st, 2018 and December 31st, 2018.

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.

Guarantees received

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

v) Revaluation reserves as of December 31st, 2017

On December 31st, 2017, the revaluation reserves amount to 533,839,585 (compared to 586,619,248 in December 31st, 2016). 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.

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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, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017). For 2017, 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 2017, tariffs for the transmission and system services were approved by ANRE Order no. 27/2016 and for the second semester of 2017 by ANRE Order no. 48/2017.

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 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). By way of exception, the tariff for the technological system services approved for the fourth tariff year has been revised pursuant to the provisions of Art. 45 of ANRE Order no. 45/2017, from 9.39 lei/MWh to 12.06 lei/MWh, applicable starting with January 1st, 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.

Service	Tariff applied in the first semester of 2017 (approved by ANRE Order no. 27/2016) lei/MWh	Tariff applied in the second semester of 2017 (approved by ANRE Order no. 48/2017) lei/MWh
Electricity transmission service	18.70	16.86
Functional system services	1.30	1.11
Technological system services	11.58	9.39

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26. COMMITMENTS AND CONTINGENCIES (continued)

vii) Contingencies

The following control measures are ongoing at the Company's 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 objectives undergoing verification for 2012-2016 are presented below:

- substantiating and executing the revenues and expenses 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,
- The Ministry of Economy – Direction for Minister Control Body – the control commenced on January 18th, 2018 – the objectives of the measure are: verifying the observance of legal provisions and internal norms pertaining to the entity's organization and functioning, verifying the way in which the acquisition activity is organized and performed, verifying the way in which consultancy, legal assistance and representation and litigation agreements are concluded and performed, verifying the way in which the sponsorship agreements are concluded and performed, verifying the way in which the transportation expenses are made, analysis of the way in which orders, instructions and other requirements of the Ministry of Economy in the specific field of activity are performed, verifying the completion status of the measures ruled via previous reports, comparative analysis of the entity's economic and financial results in the last three years of activity.
- National Agency for Public Procurement – the control started on February 26th, 2018 – the control aimed at verifying the observance of the rules pertaining to the drafting of technical specifications for the allocation procedure of the agreement for the Technical upgrade of the Turnu Severin Este 220/110 kV substation – procurement notice no. 166637/15.03.2016.

On 31 December 2017 Teletrans SA, a Company subsidiary, was subject to control began on 29.05.2015 by the General Division of Economic-Financial Audit of the Public Finance Ministry, the audited interval being 01.01.2010-31.12.2014 according to Mission orders 82/27.05.2015 and 01.01.2015- to date, according to Mission order 38/31.05.2017; the objectives of the economic-financial audit were:

- fundamentals and execution of the revenue and expense budget;
- compliance with budgetary economic-financial and accounting discipline;
- Ccompliance with the legal provisions regarding the assets from the state's public and private domain and in that of administrative-territorial units;
- the mode of organisation and exercise of compulsory internal / managerial control;
- verifying the compliance with the provisions of GO 26/2001 with respect to enhancing financial discipline at certain economic operators where the state or administrative-territorial units are single or majority shareholders or hold directly / indirectly some majority participation, from 2015 to date.

On December 31, 2017, Teletrans SA, the subsidiary of the Company, was subject to control by the General Division- for Economic and Financial Inspection of the Ministry of Public Finance regarding the period 2010-2014 and finalized in 2018. The Economic and Financial Inspection Report Draft issued on February 21st, 2018 specifies that, as a result of the leasing of the assets belonging to the public state domain (capacities and infrastructure elements of the public telecommunications network) with disregard by the Company's representatives and Teletrans S.A. of the provisions of art. 14, art. 15 and art. 16 of Law no. 213/1998 on the public property, the state budget would have been damaged in a total amount of 88,778,158 representing sums collected and not paid to the state budget in the period 2006-2016.

In the letter 13443 from 26.03.2018 written by Teletrans, it 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;

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- 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 operation of the optical fibre excess, the juridical nature of the contractual relation took into account the legal opinion of Bostina&Asociatii according to which the previous contract C45/2006 was deemed a mandate contract without representation about "SC TELETRANS SA concluding in its own name but on account of Transelectrica's public telecommunication network contracts with a view to trade 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.

Until the date of approval of the stand-alone financial statements for the year ended on December 31st, 2017, the Company did not complete the analysis necessary to determine the possible effect of the result of the economic and financial inspection report issued on 21 February 2018 on the separate financial statements of the Company for the year ended on 31 December 2017.

27. RELATED PARTIES

i) Subsidiaries held by the Company

Entity	Home country	December 31 st , 2017 % of shares	December 31 st , 2016 % of shares
SMART SA *)	Romania	70	70
TELETRANS SA	Romania	100	100
ICEMENERG SA **)	Romania	-	-
OPCOM SA	Romania	100	100
FORMENERG SA	Romania	100	100
ICEMENERG SERVICE SA	Romania	100	100

The total value of the shares held by the Company in its subsidiaries amounted to 78,038,750 on December 31st, 2017 and to 78,038,750 on December 31st, 2016.

The gross value of the Company's holdings in its subsidiaries is as follows:

SC SMART SA

SC SMART SA, with registered office at 33Magheru 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. The subsidiary was incorporated by GD no. 710/July 19th, 2001 on November 1st, 2001. The share capital as of December 31st, 2016 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
 - no. of shares 3,852,860
 - shareholding quota in gains and loss: 70.005%
- The Romanian State via the Government Secretariat-General
 - no. of shares 1,650,770
 - shareholding quota in gains and loss: 29.994%

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On January 25th, 2016, the amendment regarding the change of the shareholding 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. With right of appeal within 30 days from notification. The appeal is lodged with the Bucharest Court Section VI Civil. Pronounced in open court today, November 16th, 2015". CNTEE Transelectrica SA lodged an appeal, which was registered on the docket of the Court of Appeal, the case being settled at the hearing from May 23rd, 2016, when the Court of Appeal Bucharest ruled the civil decision no. 903/23.05.2016, by which it ordered the following: "Rejects the appeal as 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."

SC TELETRANS SA

SC TELETRANS SA, with registered office at 16 – 18 Hristo-Botev Blvd., district3, Bucharest, has as main activities process and management IT maintenance services, telecommunication and IT specific services in the PTG, telephony and data transmission. The subsidiary was incorporated as per Decision no. 3/2002 of the General Assembly of Shareholders. The share capital as of December 31st, 2016 amounted to 6,874,430, subscribed and fully paid up.

SC ICEMENERG SA

SC "Filiala Institutul de Cercetări și Modernizări Energetice" – ICEMENERG SA, with registered office at 8 Energeticienilor Blvd., district 3, Bucharest, has as main activities research and development in physical and natural sciences, innovation, studies, development strategies, design, city planning, engineering and other technical services. The subsidiary was incorporated as per GD no. 1065/September 4th, 2003. The share capital as of December 31st, 2016 amounted to 1,083,450, subscribed and fully paid up.

**) On April 7th, 2014 it was accepted by the National Trade Register, the file registration number 121452/April 3rd, 2014 involving the deregistration of the Subsidiary Institute for Energy Research and Modernization – ICEMENERG SA Bucharest. Through the order no. 123/March 13th, 2014 (act of registration and authorization of functioning), was registered at the Trade Register the "National Institute of Research and Development for Energy Bucharest" (GD no. 925/2010). The company filed a complaint against the resolution of ORC director ordering the registration in the trade register of the deregistration of the Subsidiary ICEMENERG SA Bucharest.

Bucharest Court, Civil Section VI, through the sentence no. 3569/July 14th, 2014 pronounced in the file no. 15483/3/2014, in which the company was found in contradiction with the defendants the Subsidiary Institute for Energy Research and Modernization "Icemenerg" S.A. Bucharest and the National Institute of Research and Development for Energy-Icemenerg Bucharest rejected the complaint of the Company, motivated by the fact that GD no. 925/2010 was not abolished until the deregistration at ORC (Trade Register Office). The Court of Appeal has notified on February 24th, 2015 the solution pronounced in the file no. 15483/3/2014 and namely Decision no. 173/2015, which dismissed the appeal of CNTEE Transelectrica SA as ill-founded, the decision being final.

Against the Decision no. 173/2015, pronounced by Bucharest Court of Appeal, Transelectrica SA filed an appeal for annulment, which makes the object of the file no. 1088/2/2015 before the Court of Appeal - Section VI Civil, with hearings on 13th May, 2015. On May 13th, 2015, by Decision no. 777/2015, the Court of Appeal Bucharest dismissed the appeal for annulment as ill-founded, the decision being final.

At the meetings from March 28th, 2016 and August 30th, 2016, the Extraordinary General Assembly did not approve the decrease of the share capital of CNTEE Transelectrica SA with the amount of 1,084,610, representing the share capital

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subscribed and paid of the ICEMENERG SA Bucharest subsidiary, by decreasing the shareholding of the Romanian State in the share capital of CNTEE Transelectrica SA, for enforcing the provisions of GD no. 925/2010.

In 2015, the Company registered an impairment amounting to 1,083,450 for the shares held by the Institute for Energy Research and Upgrades – ICEMENERG SA Bucharest subsidiary, which was removed from the register.

SC OPCOM SA

SC OPCOM SA with its registered office at 16-18 Hristo Botev Blvd., district 3, Bucharest, with legal personality, has as its main object of activity the organization, administration and supervision of the energy market and was incorporated by GD no. 627/2000. The share capital as of December 31st, 2016 amounted to 30,687,300, subscribed and fully paid up. In 2016, the share capital of SC OPCOM SA was increased by 22,587,300, by in-kind contribution of shareholder CNTEE Transelectrica SA.

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

The amendment of the articles of incorporation of SC OPCOM SA, based on the Decision no. 6/15.06.2016 of the Extraordinary General Assembly of Shareholders, was registered at the Trade Registry Office according to the Certificate for Registration of Specifications of 11.07.2016. As of 31.12.2016, the share capital is registered in the financial statements subject to GAS approval by OPCOM are presented as subscribed and fully paid-up share capital.

SC FORMENERG SA

SC FORMENERG SA with its registered office at 3 Gh. Sincai Blvd., district 4, Bucharest, with legal personality, has as its main object of activity the initial and continuous training of energy personnel and other beneficiaries in all fields of activity and was incorporated by Decision no. 33/2001 of the General Assembly of Shareholders. The share capital as of December 31st, 2016 amounted to 1,948,420, subscribed and fully paid up.

SC ICEMENERG SERVICE SA

SC ICEMENERG SERVICE SA with its registered office in Bucharest, 8 Energeticienilor Blvd., district 3 has as its object of activity the design, manufacturing, implementation, repair, modernization and marketing of machines, equipment and specialized installations inland and abroad. GD no. 2294/09.12.2004 approved the transfer of the package of shares held by subsidiary "Institutul de Cercetari si Modernizari Energetice – ICEMENERG" - S.A. Bucharest in the subsidiary "ICEMENERG-SERVICE" - S.A. Bucharest to the National Power Grid Company "Transelectrica" - S.A. The share capital as of December 31st, 2016 amounted to 493,000, subscribed and fully paid up.

On June 9th, 2017, the Bucharest Court – Section VI Civil pronounced the entering into bankruptcy under the simplified procedure of the debtor subsidiary ICEMENERG SERVICE – SA, and appointed Solvendi SPRL as temporary liquidator. In 2016, the Company registered an impairment amounting to 493,000 for the shares held by the SC ICEMENERG SERVICE SA subsidiary.

ii) Related parties – main economic and financial indicators obtained by the Company's subsidiaries as of December 31st, 2016

The main economic and financial indicators obtained by the Company's subsidiaries as of December 31st, 2016 (the last financial year for which the financial statements were approved) are as follows:

No.	Indicator name:	SMART	TELETRANS	OPCOM	FORMENERG	ICEMENERG SERVICE
1.	Turnover	73,679,190	39,206,834	28,344,278	3,338,817	980,381
2.	Gross profit/(loss)	(10,500,488)	4,980,340	672,262	(1,510,957)	(3,550,431)
3.	Paid-up share capital	55,036,300	6,874,430	8,100,000	1,948,420	493,000
4.	Paid-up share capital	-	-	22,587,300	-	-
5.	Reserves	4,232,189	17,582,354	8,991,096	1,721,952	12,709
6.	Equity - total	76,466,840	30,463,704	44,471,886	13,267,819	(1,923,521)

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

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Related party	Trade receivables		Trade payables	
	December 31 st , 2017	December 31 st , 2016	December 31 st , 2017	December 31 st , 2016
SC SMART SA	16,884,019	404,257	8,992,426	15,471,838
SC TELETRANS SA	192,966	267,525	7,361,973	6,531,203
SC FORMENERG SA	-	-	-	3,960
SC OPCOM SA	23,995,729	30,921,913	7,442,483	6,747,421
TOTAL	41,072,714	31,593,695	23,796,882	28,754,422

The transactions with subsidiaries during 2017 and 2016 are detailed below:

Related party	Sales		Purchases	
	2017	2016	2017	2016
SC SMART SA	739,124	1,064,431	65,360,069	79,564,566
SC TELETRANS SA	3,174,815	2,879,312	32,164,216	32,619,227
SC FORMENERG SA	-	-	177,072	158,301
SC OPCOM SA	516,466,529	342,103,814	217,836,584	153,759,926
TOTAL	520,380,468	346,047,557	315,537,941	266,102,020

In 2017, the Company received dividends from the following subsidiaries:

- SC TELETRANS SA – 2,179,493 (1,819,170 in year 2016);
- SC OPCOM SA – 0 (1,218,069 in year 2016);

iv) *Related parties – transactions with other State-owned companies*

The Company is a majority State-owned company.

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

The value of the Company's transaction with State controlled entities or over which the State has significant influence account for an important share of sales and purchases registered in the year ended December 31st, 2017.

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

During 2017, CNTEE Transelectrica SA collected from the Ministry of Economy the amount of 163,809 lei in order to start the expropriation procedures for the privately owned immovable properties constituting the expropriation corridor for the following works of national interest:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation - Stage II - Connections in the Medgidia Sud 400 kV OHL d.c. substation;
- Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad axis/Portile de Fier – (Anina) – Resita 400 kV OHL to 400 kV;

27. RELATED PARTIES (continued)

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- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV / stage I: Extension of the Portile de Fier 400 kV substation, Portile de Fier - Anina - Resita 400 kV OHL, Resita 400/220/110 kV Resita substation;
- Resita-Pancevo 400 kV OHL interconnection;
- Ostrovu Mare 220 kV OHL double circuit – PTG;
- Gutinas – Smardan 400 kV OHL d.c. and
- Cernavoda-Stalpu 400 kV OHL d.c. and connection in the Gura Ialomitei substation.
(see Note 13).

28. REMUNERATION OF 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:

	2017	2016
<u>Management employed based on IEC</u>		
Short-Term Benefits	9,822,029	10,269,611
Other long-term benefits	121,078	266,803
<u>Members of the Directorate and the Board of Supervisors</u>		
Fixed component	1,611,448	1,566,138
Variable component	-	2,013,206
Total	11,554,555	14,115,758

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, 2017, the number of OAVTs granted to the Board of Supervisors members of Transelectrica is as follows:

Package	No. of OAVTs	Date granted	Due date	Weighted average price for the month prior to granting as per the mandate contract
Package 1				
November 15 th , 2013	644,545	15.11.2013	15.11.2016	13.1484 (lei/share)
Package 2				
November 15 th , 2014	571,561	15.11.2014	15.11.2017	26.6040 (lei/share)
Package 3				
November 15 th , 2015	355,640	15.11.2015	15.11.2018	25.9986 (lei/share)
Package 4				
November 15 th , 2016	415,274	15.11.2016	15.11.2019	29.0861 (lei/share)

28. REMUNERATION OF COMPANY'S MANAGEMENT (continued)

As of December 31st, 2017, 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	Due date	Weighted average price for the month prior to granting as per the mandate contract
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Package 1				
May 15 th , 2014	567,978	15.05.2014	15.11.2016	13.1484 lei/share
Package 2				
November 15 th , 2014	657,973	15.11.2014	15.11.2017	26.6040 lei/share
Package 3				
November 15 th , 2015	522,418	15.11.2015	15.11.2018	25.9986 lei/share
Package 4				
November 15 th , 2016	474,837	15.11.2016	15.11.2019	29.0861 (lei/share)

Details pertaining to OAVT calculation model:

	Package 1	Package 2	Package 3	Package 4
Validity	3 years	3 years	3 years	3 years
Way of exerting	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

Thus, as of December 31st, 2017, the Company recorded a provision amounting to 38,498,154 (42,354,707 as of December 31st, 2016) 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.

29. FINANCIAL INSTRUMENTS*Financial risk management*

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

The Company does not have formal arrangements to mitigate financial risks. However, the financial risks are monitored by management focusing on the needs of the Company in order to make sure that the opportunities and threats are matched efficiently.

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

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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:

	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Fixed interest rate instruments		
Financial liabilities	389,449,493	478,649,422
Variable interest rate instruments		
Financial liabilities	122,800,429	161,485,508

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

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.

	<u>Loss 2017</u>	<u>Loss 2016</u>
RON	-	(5,323)
EUR	(19,980)	(1,325,060)
USD	(1,696)	(21,266)
Total	<u>(21,676)</u>	<u>(1,351,649)</u>

As of the reporting date, a 100% depreciation of 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.

	<u>Profit 2017</u>	<u>Profit 2016</u>
RON	-	5,323
EUR	19,980	1,325,600
USD	1,696	21,266
Total	<u>21,676</u>	<u>1,351,649</u>

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

Exchange rate risk

The Company 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 Company'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, USD and JPY. 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

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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.

29. FINANCIAL INSTRUMENTS (continued)

The Company's exposure to foreign currency risk, expressed in RON, is as follows:

December 31st, 2017	Value	RON	EUR	USD
Monetary assets				
Cash and cash equivalents	520,746,500	465,835,289	54,895,551	15,660
Other financial assets	-	-	-	-
Receivables	818,529,879	753,382,084	65,147,795	-
		1,219,217,37		
Gross exposure	1,339,276,379	3	120,043,346	15,660
Monetary liabilities				
Suppliers and other liabilities	708,625,011	642,775,953	65,849,058	-
Loans	512,249,922	200,434,521	308,380,208	3.435.193
Gross exposure	1,220,874,933	843,210,474	374,229,265	3.435.193
Net balance sheet exposure	118,401,446	376,006,899	(254,185,920)	(3.419.533)

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

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

The following significant exchange rates were used:

	Average exchange rate		Exchange rate as of	
	2017	2016	December 31st, 2017	December 31st, 2016
RON/ EURO	4.5682	4.4908	4.6597	4.5411
RON/ USD	4.0524	4.0592	3.8915	4.3033

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Company "Transelectrica"- SA on April 30th, 2018*(All amounts are expressed in RON, unless otherwise indicated)***29. FINANCIAL INSTRUMENTS (continued)***Sensitivity analysis of exchange rate risk*

A 10% appreciation of the RON against the following currencies as of December 31st, 2017 and December 31st, 2016 would have increased the gross profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit 2017	Profit 2016
EUR	25,418,592	42,631,441
USD	341,953	1,133,218
JPY	-	-
Total	25,760,545	43,764,658

A 10% depreciation of the RON against the following currencies as of December 31st, 2017 and December 31st, 2016 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 2017	Loss 2016
EUR	(25,418,592)	(42,631,441)
USD	(341,953)	(1,133,218)
JPY	-	-
Total	(25,760,545)	(43,764,658)

Credit risk

The credit risk is the risk in which the Company bears a financial loss following the non-fulfilment of contractual obligations by a customer or counterparty to a financial instrument. This risk results mainly from trade receivables and the cash and cash equivalents.

The treatment of counterparty risk is based on internal and external factors of success of the Company. The external factors of success – which have an effect upon the systematic reduction of the risk, are: decentralizing the energy sector in which the production, transmission, distribution and supply are separate activities and the customer interface is represented by the supplier, the electricity trading on the Romanian market on two market segments: the regulated market and the competitive market. The internal factors of success in the treatment of counterparty risk include: diversifying the client portfolio and diversifying the number of services on the electricity market.

Financial assets that may submit the Company 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 risk of collection related to such receivables is limited, as these amounts are mainly owed by the state-owned companies.

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

At the date of reporting, the maximum exposure to the risk of collection was:

	December 31st, 2017	December 31st, 2016
Financial Assets		
Net trade receivables	724,176,710	764,760,133
Other net receivables	47,347,178	87,211,550
VAT to be recovered	47,005,991	28,432,828
Cash and cash equivalents	520,746,500	933,661,193
Other financial assets	-	135,090,000
	1,339,276,379	1,949,155,704

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Company "Transelectrica"- SA on April 30th, 2018*(All amounts are expressed in RON, unless otherwise indicated)***Total**

The situation of receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	557,134,751	1,268,176	639,151,930	4,568,505
Due date exceeded by 1 to 30 days	1,649	2,345	12,638,227	-
Due date exceeded by 31 to 90 days	2,780,207	2,853,477	5,519,233	-
Due date exceeded by 90 to 180 days	(322,245)	-	836,994	359,345
Due date exceeded by 180 to 270 days	58,688,984	1,618,294	27,274,940	7,725,361
Due date exceeded by 270 to 365 days	25,856,404	21,850,588	6,206,328	-
Due date exceeded by more than a year	202,687,679	95,057,839	173,710,511	87,924,820
Total	846,827,429	122,650,719	865,338,164	100,578,031

The situation of other receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	70,307,272	2,525,896	64,477,570	323,854
Due date exceeded by 1 to 30 days	55,235	0	15,861	8,810
Due date exceeded by 31 to 90 days	63,007	57,063	56,503	30,487
Due date exceeded by 90 to 180 days	34,644,875	34,533,556	6,064,159	4,791,499
Due date exceeded by 180 to 270 days	2,954,880	2,925,623	2,317,148	669,292
Due date exceeded by 270 to 365 days	179,445	112,945	3,159,723	594,621
Due date exceeded by more than a year	66,439,763	40,136,225	101,200,666	83,661,517
Total	174,644,477	80,291,308	177,291,630	90,080,080

The amount of 174,644,476 includes 47,005,991 which represents the VAT to be recovered in the balance at 31.12.2017 (2016: 28,432,828).

The Company's policy is to record impairment adjustments for value loss of 100% for clients in litigation, insolvency and bankruptcy, and 100% of trade receivables and other receivables not re paid in more than 180 days, except for outstanding claims 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 2017, calculated for trade receivables and related penalties were recorded for SC Eco Energy SRL (24,736,066), SC Petprod SRL (23,539,650), Arelco Power (17,359,453), SC Total Electric Oltenia SA (14,185,577), Romenergy Industry (13,512,997), Elsaco Energy (9,293,972), RAAN (8,516,707), Elsaco Energy (7,177,167), CET Brasov (4,664,627), OPCOM (4,517,460). In order to recover the receivables adjusted for impairment, the Company took the following measures: court action, enrollment at creditor table, requesting clarifications from ANAF (for VAT to be collected from OPCOM), etc.

At the same time, the Company has registered an impairment adjustment of the amount of 44,442,936 due to the total liabilities paid to ANAF. (see Note 9).

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The evolution of adjustments for impairment of receivables is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	100,578,031	87,986,497
Recognition of adjustments for impairment	36,575,509	21,129,610
Reversal of adjustments for impairment	14,502,821	(8,538,076)
Balance at the end of the period	122,650,719	100,578,031

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

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	90,080,080	84,159,760
Recognition of adjustments for impairment	38,009,855	7,501,245
Reversal of adjustments for impairment	47,798,627	(1,580,925)
Balance at the end of the period	80,291,308	90,080,080

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

	December 31st, 2017	December 31st, 2016
Assets		
Monetary assets in RON	1,218,732,263	1,847,220,562
Monetary assets in foreign currency	120,059,006	83,277,273
	1,338,791,269	1,930,497,835
Liabilities		
Monetary liabilities in RON	(843,210,474)	(1,001,770,284)
Monetary liabilities in foreign currency	(377,664,459)	(520,923,855)
	(1,220,874,933)	(1,522,694,139)
Net monetary position in RON	375,521,789	845,450,278
Net monetary position in foreign currency	(257,605,453)	(437,646,582)

The Company's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they mature.

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The following table illustrates the contractual maturities of financial liabilities, including interest payments:

December 31st, 2017	<u>Net value</u>	<u>Contractual valu</u>	<u><12 months</u>	<u>1 – 2 years</u>	<u>2 – 5 years</u>	<u>> 5 years</u>
Financial liabilities						
Suppliers and other liabilities	(699,936,819)	(699,936,819)	(686,485,795)	(12,613,029)	(837,995)	
Other tax and social security liabilities	(8,688,192)	(8,688,192)	(8,688,192)	-	-	
Loans	(512,249,922)	(1,271,507,524)	(317,063,988)	(51,449,375)	(68,912,530)	(74,824,029)
Total	<u>(1,220,874,933)</u>	<u>(1,980,132,535)</u>	<u>(1,012,237,975)</u>	<u>(64,062,404)</u>	<u>(69,750,525)</u>	<u>(74,824,029)</u>

December 31st, 2016	<u>Net value</u>	<u>Contractual value</u>	<u><12 months</u>	<u>1 – 2 years</u>	<u>2 – 5 years</u>	<u>> 5 years</u>
Financial liabilities						
Suppliers and other liabilities	(873,948,200)	(873,948,200)	(873,948,200)	-	-	-
Other tax and social security liabilities	(8,611,209)	(8,611,209)	(8,611,209)	-	-	-
Loans	(640,134,730)	(1,622,599,794)	(138,204,894)	(311,711,992)	(95,401,520)	(94,816,486)
Total	<u>(1,522,694,139)</u>	<u>(2,505,159,203)</u>	<u>(1,020,764,303)</u>	<u>(311,711,992)</u>	<u>(95,401,520)</u>	<u>(94,816,486)</u>

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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, 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 31st, 2017	Book value	Fair value	Level
Financial assets			
Net trade receivables	724,176,710	724,176,710	Level 1
Other net receivables	47,347,178	47,347,178	Level 1
VAT to be recovered	47,005,991	47,005,991	Level 1
Cash and cash equivalents	520,746,500	520,746,500	Level 1
Other financial assets	-	-	Level 1
	1,339,276,379	1,339,276,379	
December 31st, 2017	Book value	Fair value	Level
Non-current financial liabilities			
Loans, less bonds	195,185,934	195,185,934	Level 1
Bonds	-	-	Level 1
	195,185,934	195,185,934	
Current financial liabilities			
Trade payables and suppliers of non-current assets	699,936,819	699,936,819	Level 1
Loans	117,063,988	117,063,988	Level 2
Bonds	200,000,000	200,000,000	Level 1
Liabilities towards employees and other liabilities	8,688,192	8,688,192	Level 1
	1,025,688,999	1,025,688,999	
December 31st, 2016	Book value	Fair value	Level
Financial assets			
Trade receivables	764,760,133	764,760,133	Level 1
Other net receivables	87,211,550	87,211,550	Level 1
Cash and cash equivalents	933,661,193	933,661,193	Level 1
Non-reimbursable funds to be received	135,090,000	135,090,000	Level 1
	1,951,132,524	1,951,132,524	
December 31st, 2016	Book value	Fair value	Level
Non-current financial liabilities			
Loans, less bonds	301,929,798	440,134,730	Level 1
Bonds	200,000,000	200,000,000	Level 1
	501,929,798	640,134,730	
Current financial liabilities			
Trade payables and suppliers of non-current assets	873,948,200	776,167,704	Level 1
Loans	138,204,932	167,362,306	Level 2
Liabilities towards employees and other liabilities	8,611,209	6,763,363	Level 1
	1,020,764,341	950,293,373	

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	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Financial assets		
Cash and bank balances	520,746,500	1,068,751,193
Receivables	818,529,879	861,746,642
Financial liabilities		
Depreciated cost	1,220,874,933	1,522,694,139

Personnel risk and the salary scheme

As of December 31st, 2017, 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 companies in which it is the majority shareholder may lead to a major fluctuation within the specialized work force.

Capital risk management

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

Debt ratio indicator

	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Short and long-term loans	512,249,922	640,134,930
Cash and bank balances	(520,746,500)	(933,661,193)
Other financial assets	-	(135,090,000)
	<u>(8,496,578)</u>	<u>(428,616,263)</u>
Shareholders' equity	2,717,631,766	3,107,714,414
Debt ratio	-	-

30. FEES CHARGED BY EACH STATUTORY AUDITOR OR AUDIT FIRM

The total fees charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax consultancy services and for non-audit services according to Art. 38 of Annex no. 1 to the Order no. 2844/2016 of the Ministry of Public Finances, as subsequently amended and supplemented, related to the year 2017, are as follows:

- **SC Deloitte Audit SRL** - Contract no. C210/30.10.2017 – 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 fulfillment 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. 113 letter G paragraph (6) of Regulation no. 1/2006 issued by the National Securities Commission – fees for 2017 – 200,000, to which VAT is added;

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- **SC PKF Finconta SRL** – Contract no. C75/11.04.2016 – tax consultancy services – fees for 2017 – 36,700, to which VAT is added.
- **SC Econsulting SRL** – Contract no. C266/03.12.2015 – audit services for the project called "Studies regarding the new 400 kV OHL d.c between the Smardan and Gutinas substations", financed via European Funds within the TEN-E program for the period April 1st, 2011 - January 27th, 2017 - fees for 2017 - 2,569;
- **SC Deloitte Audit SRL** – Contract no. C166/04.09.2017 – Independent report for limited assurance of information included in current reports drafted by the company as per provisions of Law no. 297/2004 and Regulation no. 1/2006 - fees for 2017 – 4,500, to which VAT is added;

31. SUBSEQUENT EVENTS

Acceptance of mandate for interim member of the Supervisory Board

According to the Decision no 1 of Ordinary General Shareholders' Meeting from January 9, 2018, Mr. Constantin DUMITRU was appointed as a temporary member of the Supervisory Board, with a term of office until March 30, 2018.

The appointment of Mr. Constantin DUMITRU became effective starting with January 15, 2018, the date of signing before the public notary of the statement of acceptance of the mandate as an interim member of the Supervisory Board of the National Power Grid Company "Transelectrica" S.A.

Extension of the directorate mandate

In the meeting on January 15th, 2018, the Supervisory Board decided to extend through an addendum, the Mandate Contract of the interim members of the Directorate for a period of 2 months, respectively until March 16th, 2018. Therefore, the composition of the Directorate is as follows:

1. Georgeta - Corina POPESCU 2. Andreea - Georgiana FLOREA 3. Dan - Valeriu ARDELEAN 4. Mircea - Toma MODRAN 5. Florin - Cristian TĂTARU.

Grant approval in the amount of 27,085,000 euro

On January 25, 2018, the European Commission approved a grant of € 27,085,000 for the construction of the Cernavoda-Stalpu 400 kV power line. The Cernavodă - Stâlpu airline will contribute to increasing interconnection capacity between Romania and Bulgaria and to the integration of wind energy in the Dobrogea area.

The Cernavodă-Stâlpu 400 kV line will be about 160 km long and for its commissioning it is necessary to build the 400 kV Stâlpu station and to expand the Cernavoda and Gura Ialomiței stations. According to the 10-year Development Plan of CNTEE Transelectrica SA, 400kV Cernavoda-Stâlpu OHL will be completed in 2020.

The Cernavoda-Stalpu Line Project, part of the Black Sea Corridor Cluster, is one of the six major investment objectives of the National Power Grid Company Transelectrica SA, which is on the third list of projects of common interest (PCI) on energy infrastructure adopted in November 2017 by the European Commission. The total value of the six investments is about one billion lei. All of these projects contribute to the achievement of the 400kV national ring, an objective included in the governance program, which leads to an increase in the operational safety of NPSs and the achievement of an economical operating regime for the PTGs.

Loans for current activity

Transelectrica signed the credit contract no. C55 / 01.03.2018 with Raiffeisen Bank for a period of 12 months for the financing of the high efficiency cogeneration bonus scheme, in the form of an overdraft facility amounting to 100,000,000, at an interest rate calculated according to the reference rate ROBOR 1M, plus a negative margin of 0.35%. If the reference rate is less than 0.35%, the interest rate applied is 0%. This was guaranteed by:

- Mortgage on the bank 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 .

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

Appointment of interim Directorate Members

As the term of office of the current members of the Directorate ceases on March 16, 2018, the Board of Supervisors, as of March 17, 2018, appointed the following persons as interim members of the Board of Directors as of March 17, 2018:

1. Georgeta – Corina POPESCU
2. Andreea – Georgiana FLOREA
3. Dan – Valeriu ARDELEAN
4. Florin - Cristian TĂTARU

The mandate is granted for a period of 4 months with the possibility of extending the mandate, for solid reasons, for further two months. The term of office shall not exceed the date of finalization of the selection procedure of the members of the Directorate of the National Power Grid Company "Transelectrica" SA in the conditions of art. 642 of G.E.O. no. 109/2011 if the procedure is completed within this interval. In accordance with Art. 18 par. (4) of the Constitutive Act of the National Power Grid Company "Transelectrica" -SA, the Supervisory Board elects as the Chairman of the Executive Board, alternatively Chief Executive Officer or Chief Executive Officer - "CEO" - of the Company) of the National Company of Power Transmission "Transelectrica" SA, starting with March 17, 2018, Ms Georgeta - Corina POPESCU. The appointment of the above-mentioned Directors will become effective on the date of signing before the public notary of the declaration of acceptance of the mandate of the Director of the National Power Grid Company "Transelectrica" SA.

Mandate Acceptance – Interim Directorate Members

The interim members of the Executive Board, appointed on March 14, 2018 by the Supervisory Board, signed the declaration of acceptance of the mandates on March 15, 2018, their appointment becoming effective as of March 17, 2018, according to the declaration of acceptance of the mandates .

Appointment of interim Supervisory Board Chairman

At the meeting on April 13th, 2018, by Decision no. 30, the members of the Supervisory Board appointed Mr. Olteanu Gheorghe as the Chairman of the Supervisory Board.

Appointment of interim Directorate Member

At the meeting on April 20th, 2018, the Supervisory Board appointed by Decision no. 37/2018 as interim member of the Directorate Mr. Adrian - Constantin Rusu. The mandate shall be granted for the remainder of the term of office of the members of Directorate, respectively until July 16th, 2018. The appointment of Mr. Adrian - Constantin RUSU became effective starting with the date of signing before the public notary the declaration of acceptance of the mandate as member of the Directorate of the National Power Grid Company "Transelectrica" SA - April 23rd, 2018, and his appointment became effective starting with the date of the Company's announcement.

Contract signing regarding the financing from European funds of the project of common interest "The internal line between Cernavoda and Stâlpu" between the European Commission and Transelectrica on April 20th, 2018

The National Power Grid Company Transelectrica SA received on May 8th, 2018 the first installment of 2.2 million euros from the financing approved in January by the European Commission for the construction of the Cernavodă-Stâlpu high voltage internal line, listed as project of common interest. The total grant amount approved by the European Commission through Europe's Interconnection Mechanism is EUR 27 million. This amount covers 50% of the eligible expenses of the investment, the rest of the costs being insured from the Company's own sources. The deadline for completion of the investment is December 31st, 2020. "The Cernavoda-Stalpu 400 kV line is the first project to receive funding from the six projects Transelectrica has on the list of projects of common interest of the European Commission. The 400 kV double circuit Cernavodă - Stâlpu line is aimed at consolidating the cross-section between the western coast of the Black Sea (eastern Romania) and the rest of the European system, while also contributing to the strengthening of the Romanian electricity transmission network, increasing the interconnection capacity between Romania and Bulgaria and the integration of wind energy in the Dobrogea area. The new 400 kV line will have a length of about 160 kilometers, and for its commissioning it is necessary to build the 400 kV Stâlpu station and the extension of the Cernavodă and Gura Ialomiței stations.

Change of Directorate Chairman of the National Power Grid Company "Transelectrica" SA

By Decision 38 dated May 4th, 2018, the Supervisory Board assigned the position of Chairman of the Directorate, alternatively named Chief Executive Officer or "CEO" - of the National Power Grid Company "Transelectrica" SA, starting with May 7th, 2018, to Mr. RUSU Adrian-Constantin. Starting with May 7th, 2018 ceases the appointment as Chairman of the

The accompanying notes form an integral part of the stand-alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica" - SA on April 30th, 2018

This is a free translation from the original Romanian version.

CNTEE Transelectrica SA

Notes of the Separate Financial Statements as of December 31st, 2017

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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

Directorate, Chief Executive Officer or "CEO" of the Society of the National Power Grid Company "Transelectrica" SA of Mrs. POPESCU Georgeta-Corina.

Government Decision to supplement the budget of the Ministry of Economy from the Budget reserve fund available to the Government provided for in the state budget for 2018, as well as the application of the provisions of Law no. 255/2010 in the case of ongoing expropriation proceedings concerning privately owned buildings that represent the corridor for the expropriation of public utility works of national interest "LEA 400 kv Oradea-Beckescsaba Installing a 100 KVar compensation coil at the 400 kv Oradea South Station. Telecommunication and remote-transmission equipment for LEA 400 kv Oradea-Beckescsaba ""

On May 10th, 2018, the Government Decision was adopted that allows the completion of ongoing expropriation procedures for privately owned real estate located in the expropriation corridor of the public utility project of national interest 400 MW Oradea-Bekescsaba LEA. By the same Government Decision, funds were approved for installing a 100 MVar compensation coil in the Oradea South 400 kV station and for the acquisition of telecommunication and remote-transmission equipment for Oradea-Bekescsaba 400 kV LEA.

The 400 kV LEA 400 kV Oradea-Bekescsaba was put into operation only partially, namely the double-circuit section, 400 kV Nadab (RO) - Bekescsaba (HU): 60 km, out of which 22 km in Romania, kV Arad-Nadab. The LEA 400 kV Oradea Sud - Nadab section has a length of 72 km, simple circuit A and is partially completed.

The commissioning of the Oradea - Nadab section and thus the completion of the 400 kV Oradea - Bekescsaba LEA contributes to closing the 400 kV ring of the country's electricity transmission network, a priority objective of Romania.

Also, the existence of this line leads to avoiding congestion costs in the northwest, which last year amounted to about 39,000 lei - in March, and about 160,000 lei - in November.

At the same time, due to the urgent completion of the works at the 400 kV Oradea - Bekescsaba LEA will be eliminated the risk of damage to the safety in operation of the National Electricity System, a higher risk generated by the potential unavailability of the interconnection line between Romania and Ukraine 400 kV Rosiori - Mukacevo), the situation in which maintaining the operational safety of the north - western area of the country would become extremely difficult and costly.

The completion of the line can be assimilated with the provision of a new flow / new power supply to the northwest of the country, with a significant impact on the increase of the operational safety, the availability of the electric energy transport service, the speed of the reaction / refueling, capacity and flexibility in the event of disruptions in the transport infrastructure caused by major damage, natural disasters, disasters, armed attack, terrorist attack, etc.

Also, by putting into operation the 400 kV Oradea Sud - Nadab LEA, the transfer capacity in the interconnection will increase in the export direction by 100 MW, and in the import direction by 300 MW, depending on seasonal and specific factors, internal and external.

Currently, Romania has an interconnection capacity of only 7% of the power installed in the NPS, compared to the target of 10% as stipulated in the European regulations for 2020, this aspect being notified to the European Commission. Putting into operation of the 400 kV Oradea Sud - Nadab LEA will help bring the European target closer.

Directorate

Adrian-Constantin RUSU	Dan-Valeriu ARDELEAN	Andreea Georgiana FLOREA	Georgeta-Corina POPESCU	Florin-Cristian TATARU
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Veronica CRISU
Accountant Department Manager

CNTEE Transelectrica SA

Notes of the Separate Financial Statements as of December 31st, 2017

In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th, 2018

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

**To the: Bucharest Stock Exchange – Department of Operations Issuers Regulated Markets
Financial Supervision Authority - General Directorate Supervision - Issuers Division**

Current report according to the provisions of Law no 24/2017, Regulation 1/2006 and BSE Code

Date of the report: **April 30, 2018**

Name of the Issuer Company: National Power Grid Co. Transelectrica SA, managed under two tier system

Headquarters: Bucharest 1, Blvd. Magheru no. 33

Working location: no. 2-4, Olteni Street, Bucharest 3

Phone/fax number: 4021 3035 611/4021 3035610

Single Registration Code: 13328043

LEI Code: 254900OLXCOUQC90M036

Number in the Commercial Register: J40/8060/2000

Share capital subscribed and paid: 733,031,420 RON

Regulated market where the issued securities are transacted: Bucharest Stock Exchange

**DECISION No. 6 Of the Shareholders' General Ordinary Assembly of the National Power Grid Company
Transelectrica SA of 30 april 2018**

The Shareholders' general ordinary assembly of the National Power Grid Company Transelectrica SA, managed under two-tier system, established and acting in accordance with the Romanian legislation, registered with the National Office of the Trade Register from Bucharest Tribunal under no. J40/8060/2000, fiscal code 13328043, having its headquarters in Bucharest City 1, Blvd. General Gheorghe Magheru 33, share capital subscribed and paid of 733,031,420 Lei, divided into 73,303,142 nominative ordinary dematerialised shares of 10 Lei nominal value each, having assembled on **30 april 2018, 10:00 h**, attended by shareholders representing 70,82750% of the share capital and 70,82750% of the total voting rights, in accordance with the provisions of the Company law 31/1990, republished, with later amendments and additions, of Law 24/2017 on the issuers of financial instruments and market operations, of Law 297/2004 on the capital market, with later amendments and additions, of the National Securities Commission's Regulations 1/2006 on issuers and security operations and 6/2009 on exercising certain shareholders' rights in the general assemblies of trading companies, issue the following

DECISION:

With respect to the agenda items under nos. 4, 4¹, 5, 5¹, 7, 7¹, 8, 8¹, 9, 9¹, 10, 16, 17, 19 and 20 as follows:

1. Regarding **item 4 on the agenda with the vote 'against' of the shareholders representing 83,01886% of the total valid casted vote**, it is not approved the Stand-alone financial statements of the National Power Grid Company Transelectrica SA for the 2017 financial exercise according to address no 14345/29.03.2018.
2. Regarding **item 4¹ on the agenda, with the vote "for" of the shareholders representing 83,01886% of the total number of votes validly cast**, the stand-alone financial statements of the National Power Grid Company "Transelectrica"–SA for the financial year of 2017 are approved, amended by the registration of the loss resulted from the additional payments obligations recorded in the tax inspection report of ANAF – DGAMC, amounting to 75,727,088 lei, detailed in the Company's Memo no. 14134/March 29th, 2018, in the reported result generated by the correction of accounting errors.

3. Regarding **item 5 on the agenda with the vote ‘against’ of the shareholders representing 83,01886% of the total valid casted vote**, it is not approved Consolidated financial statements of the National Power Grid Company Transelectrica SA for the 2017 financial exercise according to address no 14348/29.03.2018.

4. Regarding **item 5¹ on the agenda, with the vote “for” of the shareholders representing 83,01886% of the total number of votes validly cast**, the consolidated financial statements of the National Power Grid Company “Transelectrica”–SA for the financial year of 2017 are approved, amended by the registration of the loss resulted from the additional payments obligations recorded in the tax inspection report of ANAF – DGAMC, amounting to 75,727,088 lei, detailed in the Company’s Memo no. 14134/March 29th, 2018, in the reported result generated by the correction of accounting errors.

5. Regarding **item 7 on the agenda with the vote ‘against’ of the shareholders representing 83,01886% of the total valid casted vote**, it is not approved to cover the accounting loss recorded on December 31st 2017 from retained earnings obtained from the surplus from revaluation reserves, non-taxable upon change of destination in accordance with the Letter no 14135/29.03.2018.

6. Regarding **item 7¹ on the agenda, with the vote “for” of the shareholders representing 83,01886% of the total number of votes validly cast**, the distribution of profit corresponding to the financial year of 2017 is approved, with the following destinations:

Destination	Amount (lei)
Accounting profit remaining after deducting income tax as of December 31 st , 2017	28,267,175
<i>Allocation of accounting profit to the following destinations:</i>	
Legal reserve (5%)	2,601,192
Other allocations provided by law - exemption of reinvested income tax	12,541,025
Other allocations provided by law – revenues obtained in 2017 by allocating the interconnection capacity (net of income tax and legal reserve) – partial distribution, limited by the net profit	13,124,958
Profit not distributed	-

7. Regarding **item 8 on the agenda with the vote ‘against’ of the shareholders representing 83,01886% of the total valid casted vote**, it is not approved to constitute reserves associated to revenues obtained from the allocation of transmission capacity on the interconnection lines from the surplus obtained from revaluation reserves non-taxable when changing their destination in accordance with the letter no 14136/29.03.2018.

8. Regarding **item 8¹ on the agenda, with the vote “for” of the shareholders representing 83,01886% of the total number of votes validly cast**, approval is granted for the establishment of reserves amounting to 33,940,566 lei, corresponding to the income acquired from the transmission capacity allocation on the interconnection lines, left uncovered following the profit distribution of 2017 from the surplus acquired from revaluation reserves, non-taxable for the destination modification.

9. Regarding **item 9 on the agenda with the vote ‘against’ of the shareholders representing 83,01886% of the total valid casted vote**, it is approved to cover the loss from actuarial losses with the surplus obtained from revaluation reserves non-taxable when changing the destination in accordance with the letter no 14137/29.03.2018.

10. Regarding **item 9¹ on the agenda, with the vote “for” of the shareholders representing 83,01886% of the total number of votes validly cast**, approval is granted for covering of losses generated from actuarial losses amounting to 16,634,230 lei and covering the loss generated from additional payment obligations recorded in the tax inspection report of ANAF – DGAMC amounting to 75,727,088 lei, from the surplus acquired from the revaluation reserves, non-taxable for the destination modification.
11. Regarding **item 10 on the agenda with the vote ‘for’ of the shareholders representing 99,77229% of the total valid casted vote**, it is approved the discharging of the liability of Directorate and Supervisory Board members for the 2017 financial year.
12. Regarding **item 16 on the agenda with the vote ‘for’ of the shareholders representing 94,53782% of the total valid casted vote**, the discussion of the topic regarding the approval of the Board of Supervisors’ profile is postponed.
13. Regarding **item 17 on the agenda with the vote ‘for’ of the shareholders representing 94,53782% of the total valid casted vote**, the discussion of the topic regarding the approval of the candidates’ profile is postponed.
14. Regarding **item 19 in the agenda, 18 may 2018** is approved as set **registration date** of the shareholders that will be touched by the effects of the decision taken by the Shareholders’ general ordinary assembly **with the “for” vote of shareholders representing 99,99969% from the total number of validly cast votes**.
15. Regarding **item 20 in the agenda, with the “for” vote of shareholders representing 99,99969% from the total number of validly cast votes** the assembly chairperson **Georgeta - Corina POPESCU** is mandated to sign the Decision of the Shareholders’ general ordinary assembly and the documents necessary to register and publish such Decision of the Shareholders’ general ordinary assembly according to legal provisions. **Georgeta - Corina POPESCU** can also mandate other persons to carry out the publicity and registration formalities for the Decision of the Shareholders’ general ordinary assembly.

Georgeta - Corina POPESCU

**Executive Director General
Directorate Chairwoman**

INDEPENDENT AUDITOR'S REPORT

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

Qualified Opinion

1. We have audited the separate financial statements of C.N.T.E.E. Transelectrica S.A. (the Company), with registered office in Bucharest District 1, B-dul G-ral Gheorghe Magheru, No. 33, identified by the unique tax registration code RO13328043, which comprise the separate statement of financial position as at December 31, 2017, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the separate financial statements.
2. The separate financial statements as at December 31, 2017 are identified as follows:

• Net assets/ Equity	RON 2,717,146,656
• Net loss for the financial year	RON 47,945,023
3. In our opinion, except for the possible effects of the matter described in paragraph 4 in the "*Basis for Qualified Opinion*" section of our report, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2017, and its separate financial performance and its cash flows for the year then ended in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by European Union.

Basis for Qualified Opinion

4. As at December 31, 2017, S.C. Teletrans S.A., a subsidiary of the Company, was subject to an inspection undertaken by the General Direction for Economic and Finance Inspection of the Ministry of Public Finances for the period 2010 – 2014, which has been completed in 2018. The draft inspection report issued on February 21, 2018 specifies that following the rental of several assets of the State public domain (capacities and infrastructure elements of the telecommunications public network) without observation by the Company and Teletrans of the provisions of art. 14, art. 15 and art. 16 of Law 213/1998 regarding public goods, possible prejudices to the state budget in the amount of RON 88,778,158 were made, representing amounts collected but not transferred to the state budget for the period 2006 - 2016. Until the issuance of our audit report the Company has not finalized the necessary analysis to determine the possible effect of the results of the aforementioned draft inspection report on the separate financial statements as at and for the year ended December 31, 2017. We were not able to determine during our audit the possible adjustments that would have been necessary to be recorded on the separate financial statements as at and for the year ended December 31, 2017, had such an analysis been made.

5. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law")(if PIE). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our 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.

Key Audit Matters

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

We have determined that there are no key audit matters to communicate in our report, in addition to the matters described in the "Basis for Qualified Opinion" section.

Other information- Administrator's Report

7. Management is responsible for preparation and presentation of the other information. The other information comprises the Administrator's report, but does not include the separate financial statements and our auditors report thereon, nor the non-financial information declaration which is presented in a separate report.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements for the year ended December, 31, 2017, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Administrator's report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by European Union, article no. 20.

On the sole basis of the procedures performed within the audit of the separate financial statements, in our opinion:

- a) the information included in the administrators' report for the financial year for which the separate financial statements have been prepared are consistent, in all material respects, with these separate financial statements;
- b) the administrators' report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20;

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the separate financial statements prepared as at December 31, 2017, we are required to report if we have identified a material misstatement of this Administrator's report. Except for the possible effects of the matter described in paragraph 4 of the "Basis for Qualified Opinion" section of our report, we have nothing to report in this regard.

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

8. Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
10. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the financial statements

11. Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.
12. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

13. 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.
14. 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.
15. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

16. We have been appointed by the General Assembly of Shareholders on December 14, 2017 to audit the separate financial statements of C.N.T.E.E. Transelectrica S.A. for the financial year ended December 31, 2017. The uninterrupted total duration of our commitment is 4 years, covering the financial years ended December 31, 2014 until the December 31, 2017.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014.

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

Zeno Caprariu, Audit Director

For signature, please refer to the original Romanian version.

Registered with the Romanian Chamber of Financial Auditors
under no. 2693/18.11.2008

On behalf of:

DELOITTE AUDIT S.R.L.

*Registered with the Chamber of Financial Auditors of Romania
under certificate no. 25/25.06.2001*

Sos. Nicolae Titulescu nr. 4- 8, America House, Intrarea de Est,
Etajul 2 - zona Deloitte și Etajul 3, sector 1,
Bucharest, România
March 29, 2018

INDEPENDENT AUDITOR'S REPORT

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

Qualified Opinion

1. We have audited the consolidated financial statements of C.N.T.E.E. Transelectrica S.A. and its subsidiaries (the Group), with registered office in Bucharest District 1, B-dul G-ral Gheorghe Magheru, No. 33, identified by the unique tax registration code RO13328043, which comprise the consolidated statement of financial position as at December 31, 2017, 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 and notes to the consolidated financial statements.
2. The financial statements as at December 31, 2017 are identified as follows:
 - Net assets / Equity RON 2,739,069 thousand
 - Net loss for the financial year RON 54,788 thousand
3. In our opinion except for the possible effects of the matter described in paragraph 4 in the "*Basis for Qualified Opinion*" section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Order 2844/2016, with subsequent amendments for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

Basis for Qualified Opinion

4. As at December 31, 2017, S.C. Teletrans S.A., a subsidiary of the Company, was subject to an inspection undertaken by the General Direction for Economic and Finance Inspection of the Ministry of Public Finances for the period 2010 – 2014, which has been completed in 2018. The draft inspection report issued on February 21, 2018 specifies that following the rental of several assets of the State public domain (capacities and infrastructure elements of the telecommunications public network) without observation by the Company and Teletrans of the provisions of art. 14, art. 15 and art. 16 of Law 213/1998 regarding public goods, possible prejudices to the state budget in the amount of RON 88,778,158 were made, representing amounts collected but not transferred to the state budget for the period 2006 - 2016. Until the issuance of our audit report the Group has not finalized the necessary analysis to determine the possible effect of the results of the aforementioned draft inspection report on the consolidated financial statements as at and for the year ended December 31, 2017. We were not able to determine during our audit the possible adjustments that would have been necessary to be recorded on the consolidated financial statements as at and for the year ended December 31, 2017, had such an analysis been made.
5. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our 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 opinion.

Key Audit Matters

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

We have determined that there are no key audit matters to communicate in our report, in addition to the matters described in the "Basis for Qualified Opinion" section

Other information – Administrator's Report

7. The administrator is responsible for preparation and presentation of the other information. The other information comprises the Administrator's report but does not include the consolidated financial statements and our auditors report thereon, nor the non-financial information declaration is presented in a separate report.

Our opinion on the consolidated financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements for the year ended December 31, 2017, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Administrator's report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20.

On the sole basis of the procedures performed within the audit of the consolidated financial statements, in our opinion:

- a) the information included in the administrators' report for the financial year for which the financial statements have been prepared are consistent, in all material respects, with these financial statements;
- b) the administrators' report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20;

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the consolidated financial statements prepared as at December 31, 2017, we are required to report if we have identified a material misstatement of this Administrator's report. Except for the possible effects of the matter described in paragraph 4 of the "*Basis for Qualified Opinion*" section of our report, we have nothing to report in this regard.

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

8. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Order 2844/2016, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
9. 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.

10. 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

11. Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
12. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
13. 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.
14. 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.

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

Report on Other Legal and Regulatory Requirements

16. We have been appointed by the General Assembly of Shareholders on December 14, 2017 to audit the consolidated financial statements of C.N.T.E.E. Transelectrica S.A. for the financial year ended December 31, 2017. The uninterrupted total duration of our commitment is 4 years, covering the financial years ended December 31, 2014 until the December 31, 2017.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014.

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

Zeno Caprariu, Audit Director

For signature, please refer to the original Romanian version.

Registered with the Romanian Chamber of Financial Auditors
under no. 2693/18.11.2008

On behalf of:

DELOITTE AUDIT S.R.L.

*Registered with the Chamber of Financial Auditors of Romania
under certificate no. 25/25.06.2001*

Sos. Nicolae Titulescu nr. 4-8, America House, Intrarea de Est,
Etajul 2 - zona Deloitte și Etajul 3, sector 1,
Bucharest, România
March 30, 2018

CNTEE Transelectrica SA
Two-Tier Company

Stand-alone financial statements
on the date and for the financial year concluded on
December 31st, 2017

Drafted according to
the Order of the Ministry of Public Finances no. 2844/2016
with subsequent amendments and completions
for the approval of the Accounting arrangements
pursuant to the International Financial Reporting Standards

CNTEE Transelectrica SAStand-alone statement of the comprehensive income for the period concluded on December 31st, 2017*(All amounts are expressed in RON, unless otherwise indicated)*

	<u>Note</u>	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Assets			
Fixed assets			
Property, plant and equipment	5	3,044,365,315	3,189,591,544
Intangible assets	6	15,563,225	14,457,314
Financial assets	27	78,038,750	78,038,750
Long-term receivables	7	-	9,774,959
Total fixed assets		3,137,967,290	3,291,862,567
Current assets			
Inventories	8	32,014,652	30,409,648
Trade and other receivables	9	818,044,769	851,971,683
Other financial assets	10	-	135,090,000
Cash and cash equivalents	11	520,746,500	933,661,193
Total current assets		1,370,805,921	1,951,132,524
Total assets		4,508,773,211	5,242,995,091
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital, from which:		733,031,420	733,031,420
- <i>Subscribed share capital</i>		733,031,420	733,031,420
Initial offering		49,842,552	49,842,552
Legal reserves		116,360,295	116,360,295
Revaluation reserves		499,921,435	549,088,226
Other reserves		56,953,503	56,953,728
Retained earnings		1,261,037,451	1,602,438,193
Total shareholders' equity	12	2,717,146,656	3,107,714,414
Non-current liabilities			
Non-current deferred revenues	13	410,642,185	429,858,527
Loans	14	195,185,934	501,929,998
Deferred tax liabilities	17	25,036,280	30,195,003
Obligations regarding employee benefits	15	52,646,906	43,304,975
Total non-current liabilities		683,511,305	1,005,288,503

CNTEE Transelectrica SAStand-alone statement of the comprehensive income for the period concluded on December 31st, 2017*(All amounts are expressed in RON, unless otherwise indicated)*

	<u>Note</u>	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Current liabilities			
Trade and other payables	16	699.936.819	873.948.200
Other taxes and social insurance liabilities	19	8.688.192	8.611.209
Loans	14	317.063.988	138.204.932
Provisions	16	41.545.187	53.801.778
Short-term deferred revenues	13	40.881.064	38.125.074
Income tax to be paid	17	-	17.300.981
Total current liabilities		1.108.115.250	1.129.992.174
Total liabilities		1.791.626.555	2.135.280.677
Total shareholders' equity and liabilities		4.508.773.211	5.242.995.091

These separate financial statements have been approved by Management on March 28th, 2018 and have been signed on its behalf by:

Directorate,

**Georgeta - Corina
POPESCU**
Chairman

**Andreea Georgiana
FLOREA**
Member

**Dan - Valeriu
ARDELEAN**
Member

**Florin - Cristian
TATARU**
Member

Cristina STOIAN

Economics and Financial Strategy Department
Director

Veronica CRISU

Accounting Department Manager

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Revenues			
Transmission revenues		1,054,629,112	1,146,256,800
System service revenues		650,746,554	716,339,587
Revenues on the balancing market		1,304,613,489	814,079,670
Other revenues		50,327,846	45,827,232
Total revenues	20	3,060,317,001	2,722,503,289
Operating expenses			
System operating expenses	21	(257,916,731)	(230,756,782)
Expenses on the balancing market	21	(1,304,613,489)	(814,079,670)
Expenses regarding the technological system services	21	(661,323,176)	(561,027,373)
Depreciation		(311,853,273)	(323,363,219)
Employee-related expenses	22	(178,575,211)	(211,867,366)
Repairs and maintenance		(84,765,211)	(88,394,391)
Expenditures with materials and consumables	8	(8,316,853)	(7,675,889)
Fines and penalties ANAF control	23	(99, 890,556)	

CNTEE Transelectrica SAStand-alone statement of the comprehensive income for the period concluded on December 31st, 2017*(All amounts are expressed in RON, unless otherwise indicated)*

Other operating expenses	23	(160.794.955)	(133,720,367)
Total operating expenses		(3.068.049.455)	(2.370.885.057)
Operating profit		(7.732.454)	351.618.232
Financial revenues		19,098,960	29,960,030
Financial expenses		(40,219,198)	(46,988,308)
Net financial result	24	(21,120,238)	(17,028,278)
Result before income tax		(28.852.692)	334,589,954
Income tax	17	(19.092.331)	(62,228,411)
Result of the financial year		(47.945.023)	272,361,543
Basic and diluted earnings per share (lei/share)	18	0,6540	3.7155

These separate financial statements have been approved by Management on March 28th, 2018 and have been signed on its behalf by:

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**Georgeta - Corina
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**Andreea Georgiana
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Member

**Dan - Valeriu
ARDELEAN**
Member

**Florin - Cristian
TATARU**
Member

Cristina STOIAN

Economics and Financial Strategy Department
Director

Veronica CRISU

Accounting Department Manager

	Note	2017	2016
Profit of the financial year		(47,945,023)	272,361,543
Other comprehensive income			
Elements which will not be reclassified in the profit and loss account, out of which:			
- The effect of taxation corresponding to the reevaluation reserve		-	-
- Surplus from the reevaluation of tangible assets		-	-
- Actuarial losses corresponding to the determined benefits plan	15	(6,331,427)	(958,650)
Other comprehensive income (AERG)		(6,331,427)	(958,650)
Total comprehensive income		(54.276.450)	271,402,893

CNTEE Transelectrica SA

Stand-alone statement of the comprehensive income for the period concluded on December 31st, 2017

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

These separate financial statements have been approved by Management on March 28th, 2018 and have been signed on its behalf by:

Directorate,

**Georgeta - Corina
POPESCU**

Chairman

**Andreea Georgiana
FLOREA**

Member

**Dan - Valeriu
ARDELEAN**

Member

**Florin - Cristian
TATARU**

Member

Cristina STOIAN

Economics and Financial Strategy Department
Director

Veronica CRISU

Accounting Department Manager

CNTEE Transelectrica SA

 Notes on the stand-alone financial statements on December 31st, 2017

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

	Share capital	Share premium	Legal reserves	Reserve fund from reevaluation	Other reserves	Retained earnings	Total
Balance on January 1st, 2016	733,031,420	49,842,552	99,407,385	603,684,792	55,694,602	1,487,644,971	3,029,305,722
Profit of the financial year	-	-	-	-	-	272,361,543	272,361,543
Other elements of the comprehensive income, from which:							
Recognition of actuarial losses regarding the determined plan of benefits	-	-	-	-	-	(958,650)	(958,650)
Total other elements of the comprehensive income	-	-	-	-	-	(958,650)	(958,650)
Total comprehensive income of the period	-	-	-	-	-	271,402,893	271,402,893
Other elements							
Transfer of the reserves from reevaluation in the retained earnings	-	-	-	(54,596,566)	-	54,596,566	-
Increase of the legal reserve fund	-	-	16,952,910	-	-	(16,952,910)	-
Other elements	-	-	-	-	-	-	-
Total other elements	-	-	16,952,910	(54,596,566)	-	37,643,656	-
Contribution from shareholders and distributions to shareholders							
Subsidies of public assets (see Note 12)	-	-	-	-	1,259,126	-	1,259,126
Distribution of dividends	-	-	-	-	-	(194,253,327)	(194,253,327)
Total contributions from shareholders and distributions to shareholders	-	-	-	-	1,259,126	(194,253,327)	(192,994,201)
Balance on December 31st, 2016	733,031,420	49,842,552	116,360,295	549,088,226	56,953,728	1,602,438,193	3,107,714,414

These separate financial statements have been approved by Management on March 28th, 2018 and have been signed on its behalf by:

Directorate,
Georgeta - Corina POPESCU
Andreea Georgiana FLOREA
Dan – Valeriu ARDELEAN
Florin - Cristian TATARU
Cristina STOIAN
Economics and Financial
Strategy Department Director

Ver
Acco

Chairman

Member

Member

Member

Share capital	Share premium	Legal reserves	Reserve fund from reevaluation
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CNTEE Transelectrica SA

 Notes on the stand-alone financial statements on December 31st, 2017

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

Balance on January 1st, 2017	733,031,420	49,842,552	116,360,295	549,088,226
Comprehensive income of the period				
Profit of the financial year	-	-	-	-
Other elements of the comprehensive income, from which:				
Recognition of actuarial losses regarding the determined plan of benefits	-	-	-	-
Total other elements of the comprehensive income	-	-	-	-
Total comprehensive income of the period	-	-	-	-
Other elements				
Transfer of the reserves from reevaluation in the retained earnings	-	-	-	(49,166,791)
Increase of the legal reserve fund	-	-	-	-
Other elements	-	-	-	-
Total other elements	-	-	-	(49,166,791)
Contribution from shareholders and distributions to shareholders				
Derecognition of land plot by dismantling (see Note 5)	-	-	-	-
Distribution of dividends from the profit of 2016	-	-	-	-
Distribution of special dividends as per GO no. 29/2017	-	-	-	-
Total contributions from shareholders and distributions to shareholders	-	-	-	-
Balance on December 31st, 2017	733,031,420	49,842,552	116,360,295	499,921,435

These separate financial statements have been approved by Management on March 28th, 2018 and have been signed on its behalf by:

Directorate,

Georgeta - Corina POPESCU Chairman	Andreea Georgiana FLOREA Member	Dan - Valeriu ARDELEAN Member	Florin - Cristian TATARU Member	Cristina STOIAN Economics and Financial Strategy Department Director	Veronica CRISU Accounting Department Manager
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	2017	2016
Treasury flows from the operating activity		
Result of the financial year	(47,945,023)	272,361,543
Adjustments for:		
Income tax expense	19,092,331	62,228,411
Depreciation expenses	311,853,273	323,363,219
Expenditures with adjustments for trade receivables impairment	36,575,509	21,221,841
Reversal of adjustments for trade receivables impairment	(14,502,821)	(8,538,076)
Loss from various debtors	45,080,551	67,328
Net expenditures/loss with adjustments for various debtors impairment	(9,466,794)	6,163,084
Net expenditures with adjustments for inventory impairment	1,203,735	2,501,184
Net loss on disposal of property, plant and equipment	838,153	272,673
Net expenditures on adjustments regarding tangible assets	1,663,348	4,736,607
Net expenditures regarding provisions	(9,567,625)	22,821,573

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2017

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

Financial expenses with adjustments for the loss of value of assets	-	493,000
Interest expenses, interest revenues and foregone revenues from exchange differences	21,124,449	16,967,314
Cash flows before changes in the current capital	355,949,086	724,659,701
Changes in:		
Clients and similar accounts - electricity and other activities	2,326,941	(38,582,866)
Clients - balancing	12,432,909	(100,325,112)
Clients - cogeneration	(30,511,221)	(20,438,116)
Inventories	(1,605,004)	3,919,306
Trade payables and other liabilities - electricity and other activities	(54,948,491)	(67,341,791)
Liabilities - balancing	(81,854,364)	122,122,565
Liabilities - cogeneration	41,162,173	6,642,675
Liabilities paid according to ANAF taxation decision	(99,890,556)	
Other taxes and social insurance liabilities	76,983	1,847,846
Deferred revenues	(16,460,352)	(26,887,004)
Treasury flows from the operating activity	126,678,104	605,617,204
Paid interests	(22,246,255)	(25,002,612)
Paid income tax	(8,064,579)	(65,766,950)
Net cash from the operating activity	96,367,271	514,847,642
Treasury flows used in the investment activity		
Acquisition of tangible and intangible assets	(182,858,424)	(171,758,870)
Collection from down payments in the previous financial year and unused	-	29,581,392
Collection from sales of tangible assets	25,909	37,001
Collected interests	5,991,201	5,297,687
Received dividends	2,180,584	3,038,332
Other financial assets	135,090,000	(65,005,000)
Net cash used in the investment activity	(39,570,729)	(198,809,458)
Treasury flows used in the financing activity		
Repayments of long-term loans	(134,371,923)	(162,486,218)
Special dividends paid as per GO 29/2017	(169,798,704)	-
Paid dividends	(165,540,607)	(194,342,031)
Net cash used in the financing activity	(469,711,234)	(356,828,249)
Net decrease of cash and cash equivalents	(412,914,693)	(40,790,065)
Cash and cash equivalents on January 1st	933,661,193	974,451,258
Cash and cash equivalents at the end of the period	520,746,500	933,661,193

These separate financial statements have been approved by Management on March 28th, 2018 and have been signed on its behalf by:

Directorate,

Georgeta - Corina
POPESCU
Chairman

Andreea Georgiana
FLOREA
Member

Dan - Valeriu
ARDELEAN
Member

Florin - Cristian
TATARU
Member

Cristina STOIAN

Economics and Financial Strategy Department Director

Veronica CRISU

Accounting Department Manager

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION

The main activity of CNTEE Transelectrica SA ("The Company") consists of: the electricity transmission services and of the 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. 270/February 4th, 2015, 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 Electroenergetic System according to the model of separating the property ("ownership unbundling").

The registered headquarters is located in: 33 General Gheorghe Magheru Blvd., Bucharest, district 1. Currently, the activity of the Company's executive takes place at the place of operations in 2-4 Olteni Street, district 3, Bucharest.

CNTEE Transelectrica SA

Notes on the stand-alone financial statements on December 31st, 2017

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

The stand-alone financial report as of December 31st, 2017, drafted according to the Order of the Ministry of Public Finances no. 2844/2016 for 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 July 18th, 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.

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 December 31st, 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 person shareholders which hold 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 December 17th, 2014, and fulfills the obligations arising from its capacity as 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 20th, 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 via the Secretariat-General 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.

Company's mission

The Company's mission 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 market participants.

CNTEE Transelectrica SA

Notes on the stand-alone financial statements on December 31st, 2017

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

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Other information relating to the Company's activity

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

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

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

CNTEE Transelectrica SA 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 May 23, 2017, 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.

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

On July 5, 2017, Fitch grants the Company a stable BBB rating, as a recognition of the Company's efforts to achieve operational excellence and a responsible approach to the business environment in which it operates. On Oct. 11, 2017, Fitch maintains the BBB rating, stable outlook, rating one step above the country's rating (BBB- / stable outlook) for the Company.

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 develop, approve and monitor the application of all the regulations mandatory at national level necessary for the efficient operation of the electricity, heat and gas sector and market, under conditions of efficiency, competition, transparency and consumer protection.

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 develop and approve methodologies and criteria for the calculation of tariffs and regulated prices, to approve tariffs and regulated prices, to draft framework agreements, to approve technical and commercial regulations etc.

ANRE establishes the tariffs for electricity transmission and system services. Ergo, 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. 802/18.05.2016 and the General Conditions associated to the license approved by ANRE Order no. 104/2014, as subsequently amended and supplemented.

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

- the regulatory framework is relatively new and constantly prone to changes, which may affect the Company's performances;
- ANRE decisions regarding future tariffs may affect the Company's activity;
- the volume risk, namely the decrease in the amount of tariffable energy that may adversely affect the Company's financial situation. In 2017, according to ANRE Decision no. 71/2017, a simulation of two-tier tariffs has been performed by inserting a tariff for grid capacity reservation (the tariff component – fixed – for power) additional to the tariff for the energy distributed in the grid (the tariff component – variable – for energy). The application of two-tier tariffs aims at better reflecting the costs of use of the electricity transmission grid (by applying the fixed tariff component), optimizing investments in the electricity transmission grid and protecting the revenues of the transmission operator through the stability offered by the fixed tariff component.

CNTEE Transelectrica SA

Notes on the stand-alone financial statements on December 31st, 2017

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

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 and system operator of the National Power System according to the ownership unbundling model.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

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

ANRE Order no. 164/07.12.2015, accompanied by the European Commission Approval no. C (2015) 7053 final/12.10.2015, as integral part of the Order, was published in the 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 and system operators.

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

Tariffs for electricity transmission and system services

Electricity transmission is a general interest activity in the field of electricity, authorized and monitored by a public authority (public service), in the form of natural monopoly. The tariffs charged by the Company for transmission and system services are established and approved by ANRE (see Note 20).

Regulated assets base ("RAB")

The transmission tariff is set, among others, based on the regulated asset base. The regulated asset base includes the net value of property, plant and equipment and intangible assets which correspond to the private patrimony of the Company and the net value of the State's public patrimony assets funded via the Company's own 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 regulatory period if in the regulatory period savings amounts were registered and only within the limits thereof, or shall be included in the RAB at the beginning of the next regulatory period, at the value left for depreciation if a value 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, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017).

The regulated return on assets in 2017 for the electricity transmission activity is 7.7%, a value determined ANRE for the current regulatory period.

Inclusion of Transelectrica in the local and international stock exchange indexes

Starting from 29.08.2006, CNTEE Transelectrica SA shares are traded on the regulated market managed by the BSE, in category I under the symbol TEL. The Transelectrica shares are part of 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 2.21% as of December 31st, 2017 (December 31st, 2016: 4.11%), with a stock exchange capitalization of 1,799,592,136 as of December 31st, 2017 (December 31st, 2016: 2,140,451,746).

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 with January 5th, 2015, the Company was included in the Premium category of the regulated market managed by the BSE.

Company's revenues

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

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

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

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 and regulated access to the transmission grid to 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 permanently maintain the operation of the National Power System under safe conditions whilst complying with the quality standards provided in the technical code of the power 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:

tariff for system services, of which:

tariff for functional system services.

The technological system services are purchased from energy producers at the request of CNTEE Transelectrica SA pursuant to a procedure regulated by ANRE for maintaining the operational safety of the NPS as well as the quality of electricity transmitted at the parameters required by the 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. The purpose of this market is to ensure the balance between production and consumption in real time, using resources offered in a competitive system.

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

High-efficiency cogeneration

Starting with 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 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.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

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 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.

Electricity markets price coupling mechanism

On November 19th, 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.

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

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

CNTEE Transelectrica SA

Notes on the stand-alone financial statements on December 31st, 2017

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

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

Notes on the stand-alone financial statements on December 31st, 2017

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

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs (MAVIR-Hungary) and manages the congestion 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.

As a Shipping Agent and Implicit Participant, CNTEE Transelectrica SA has the commercial task to settle the power traded between SC OPCOM SA and 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 and 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. BASIS OF PREPARATION

(a) Declaration of conformity

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 2017 in accordance with OMF no. 881/2012, as subsequently amended and supplemented.

(b) 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.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of 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 (see Note 4), commitments and contingencies (see Note 26), the recognition of non-refundable funds to be received (see Note 13), the provision for impairment of receivables (see Note 9), the liabilities related to cash settled share-based payment transaction (Note 28) and the liabilities for defined benefit plans (Note 15).

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.

2. BASES OF DRAFTING (continued)

Information regarding assumptions and estimates which imply significant uncertainties are included in the following notes:

- Note 13 – 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 15 – assessment of liabilities for defined benefit plans;
- Note 26 – recognition and assessment of provisions, commitments and contingencies; key assumptions regarding the probability and magnitude of an outflow of resources;
- Note 28 – 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-to-private services reveals as follows:

- the services provided by the Company are regulated by ANRE, therefore the Grantor – the competent Ministry – does not control or regulate the type of services that the Company must 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 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. ACCOUNTING POLICIES

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

(a) Property, plant and equipment

CNTEE Transelectrica SA

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

3. ACCOUNTING POLICIES (continued)

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 is stated at cost. The cost of assets built by the Company includes cost of materials, direct salaries, initial estimate, where applicable, of costs with dismantling and relocating items and restoring the site, plus a share of indirect costs.

Recognition

Property, plant and equipment is initially valued at cost.

The cost includes the costs that are directly attributable to the acquisition of the asset. 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
- capitalized loan costs.

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

Subsequent expenditures

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 straight-line method over their useful lives, as follows:

	<u>Normal useful life (years)</u>
Buildings and special installations	40-60
Machinery and equipment	15-40
Control and measurement devices	7-12
Vehicles	5-8
Other property, plant and equipment	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 asset items (major components). Asset depreciation methods, useful lives and residual values are revised and adjusted, if necessary, at the end of each reporting period.

Revaluation

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 expert acting as evaluators with sufficient regularity so that the book value does not significantly differ from the value which can be determined based on the fair value as of the reporting date.

(b) Public patrimony assets

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

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

3. ACCOUNTING POLICIES (continued)

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 patrimony. 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 patrimony 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 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 Journal of Romania no. 298 bis of April 30th, 2015.

Between 2005 and 2013, seven addenda have been concluded to the concession agreement. 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 Addendum 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 agreement 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 under the scope of the concession agreement are capitalized and depreciated over the remaining useful life 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 investment depreciation, namely upon the expiry of the normal period of utilization, of the concession or lease agreement, pursuant to the applicable legal provisions, based on a regulatory act adopted in this regard.

3. ACCOUNTING POLICIES (continued)**(c) 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. The majority of intangible assets recorded by the Company consists of intangibles in progress and customized software. These are depreciated on a straight-line basis over 3 years.

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

Subsequent expenditures

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

(d) Foreign currency transactions

Transactions in foreign currencies are converted to LEI by applying the exchange rates applicable at the date of the transaction. 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. The exchange rates at December 31st, 2017 and December 31st, 2016 are as follows:

Currency	December 31st, 2017	December 31st, 2016
1 EUR	4.6597	4.5411
1 USD	3.8957	4.3033

Non-monetary assets and liabilities expressed in foreign currencies are measured at fair value, at the exchange rate applicable 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.

3. ACCOUNTING POLICIES (continued)

(g) Cash and cash equivalents

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

(h) Revaluation reserves

After the recognition as an asset, an item of property, plants and equipment whose fair value can be reliably measured 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 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.

The revaluation reserve included in equity related to an item of property, plant and equipment is transferred directly to the retained earnings, over the depreciation of the revaluated item 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.

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 use that are largely independent of the cash inflows of other assets or groups of assets ("cash generating unit").

3. ACCOUNTING POLICIES (continued)

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.

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

(j) Share capital

Ordinary shares are classified as 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 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 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 value is presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date 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.

3. ACCOUNTING POLICIES (continued)**(n) Recognition and de-recognition of the non-derivative financial instruments (continued)**

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to the initial recognition, these financial liabilities are assessed at depreciated cost using the effective interest method.

Other financial liabilities comprise loans, trade and other payables.

(o) 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 at 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 professional judgements about future events. New information may become available that causes the Company to change its professional judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities may affect the income tax expense in the period when such determination is made.

3. ACCOUNTING POLICIES (continued)**(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 an un-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 and 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;
- 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.

3. ACCOUNTING POLICIES (continued)**(q) Revenues (continued)****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 and system operator, as well as the distribution operator, must ensure".

The connection tariff is a regulated fee which represents the expense incurred by a network operator to 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 Company 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 loans calculated using the effective interest rate method, except for loan costs capitalized as part of assets with long cycle of manufacture, dividend income, foreign exchange gains and losses, risk fees and commissions.

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

Interest revenues are recognized in the profit and loss account of the year in which they arise, using the effective interest method. Dividend revenues are recognized in the profit and loss account on the date when the Company's right to receive dividends is recognized.

(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.

(u) Earnings 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 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 and multiplied by the number of months when the shares were outstanding during the year.

3. ACCOUNTING POLICIES (continued)

(v) Earnings per share (continued)

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

(w) Contingences

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

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

(x) 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 by the chief operating decision maker of the entity, who is responsible for allocating resources to and assessing performance of the segments.

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

Standards and Interpretations effective in the current period The following standards and amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) have entered into force for the current period:

- Amendments to **IAS 7 "Statement of Cash Flows"** - Presentation Requirement Initiative - adopted by the EU on 6 November 2017 (applicable for annual periods beginning on or after 1 January 2017),
- Amendments to **IAS 12 "Income Tax"** - Recognition of deferred tax assets for unrealized losses - adopted by the EU on 6 November 2017 (applicable for annual periods beginning on or after 1 January 2017),
- Amendments to **IFRS 12 following "IFRS Improvements (Cycle 2012-2014)"** resulting from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28) with the primary objective of eliminating inconsistencies and clarifying certain formulations - adopted by the EU on 7 February 2018 (amendments to IFRS 12 are applicable for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not significantly changed the Company's financial statements.

Standards and amendments to the existing standards issued by the IASB and adopted by the EU but not yet in force

At the date of approval of these financial statements, the following new standards issued by the IASB and adopted by the EU are not yet in force:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (applicable for annual periods beginning on or after 1 January 2018),
- **IFRS 15 Revenue from Contracts with Customers** and Amendments to IFRS 15 "IFRS 15 Effective Date" - adopted by the EU on 22 September 2016 (applicable for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leasing"** - adopted by the EU on 31 October 2017 (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to **IFRS 4 "Insurance Contracts"** - Application of IFRS 9 Financial Instruments in Accordance with IFRS 4 Insurance Contracts - Adopted by the EU on 3 November 2017 (applicable for annual periods beginning on or after 1 January 2018 or first-time adoption of IFRSs 9 "Financial Instruments"),
- Amendments to **IFRS 15 "Revenue from contracts with customers"** - IFRS 15 clarifications Revenue from contracts with customers - adopted by the EU on 31 October 2017 (applicable for annual periods beginning on or after 1 January 2018),

- Amendments to **IFRS 1 and IAS 28 "Improvements to IFRS (Cycle 2014-2016)"** resulting from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28) with the primary objective of eliminating inconsistencies and clarifying certain formulations - adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are applicable for annual periods beginning on or after 1 January 2018).

The company chose not to adopt these new standards and amendments to existing standards prior to the effective date of entry into force. The Company expects that adopting these standards and amendments to existing standards will not have a material impact on the Company's financial statements during the initial period of application.

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

Currently, IFRSs as adopted by the EU do not differ significantly from the IASB regulations, except for the following new standards, amendments to existing standards and new interpretations that have not been approved for use in the International Accounting Standards Board (IASB). EU:

- **IFRS 14 "Deferred Regarding Regulated Activities"** (applicable for annual periods beginning on or after 1 January 2016) - The European Commission has decided not to issue the approval process for this interim standard and to await its completion,
- **IFRS 17 "Insurance Contracts"** (applicable for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 2 Share-based Payment - Classification and measurement of share-based payment transactions (applicable for annual periods beginning on or after 1 January 2018),
- Amendments to **IFRS 9 "Financial Instruments"** - Advance Payment Charges with Negative Compensation (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 **"Consolidated Financial Statements"** and IAS 28 **"Investments in Associates and Joint Ventures"** - Sale or contribution of assets between an investor and its associates or joint ventures and subsequent amendments (effective date has been postponed for an undetermined period until the research project on the equivalence method is completed),
- Amendments to **IAS 19 Employee Benefits** - Change, reduction or settlement of a plan (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to **IAS 28 "Investments in associates and joint ventures"** - Long-term interests in associates and joint ventures (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to **IAS 40 "Investment property"** - Real estate investment transfers (applicable for annual periods beginning on or after 1 January 2018),
- Amendments to various Standards following the **"IFRS Improvements (Cycle 2015-2017)"** resulting from the annual IFRS Improvement Project (IFRS 3, IFRS 11, IAS 12 and IAS 23) with the primary objective of eliminating inconsistencies and clarifying certain formulations (applicable for annual periods beginning on or after 1 January 2019),
- **IFRIC 22 " Foreign Currency Transactions and Advance Consideration "** (applicable for annual periods beginning on or after 1 January),
- **IFRIC 23 "Income Tax Treatment Uncertainty"** (applicable for annual periods beginning on or after 1 January 2019).

The Company expects that the adoption of these Standards and amendments to existing standards will not have a material impact on the Company's financial statements during the initial period of application

4. DETERMINATION OF FAIR VALUE

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs, other than quoted prices included in level 1, that are observable for the assets or liabilities, either directly (e.g. as prices) or indirectly (e.g. derived from prices);
- Level 3: inputs for 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:

CNTEE Transelectrica SA

Notes on the stand-alone financial statements on December 31st, 2017

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

(i) Property, plant and equipment

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.

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 Notes on the stand-alone financial statements on December 31st, 2017

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

5. PROPERTY, PLANT AND EQUIPMENT

 The development of property, plant and equipment between January 1st, 2017 and December 31st, 2017 are as follows:

	Land plots and land improvements	Buildings and special installations	Machinery and equipment	Control and measuremen t devices	Vehicles	Other property, plant and equipment	Property, plant and equipment in progress	Total
COST								
Balance on January 1st, 2016	52,811,058	1,291,503,378	2,981,192,272	414,218,155	11,567,940	264,447,694	407,672,581	5,423,413,078
Additions	-	597	46,963	-	-	-	174,568,463	174,616,023
Transfers from tangible assets in progress	-	19,717,133	49,817,972	8,067,284	7,984,752	5,368,922	(90,956,063)	-
Reclassifications among non-current assets accounts	-	444,416	(437,120)	(7,296)	-	-	-	-
Disposals	-	(242,426)	(6,169,167)	(1,057,383)	(279,907)	(2,672,169)	(274,542)	(10,695,594)
Balance on December 31st, 2016	52,811,058	1,311,423,098	3,024,450,920	421,220,760	19,272,785	267,144,447	491,010,439	5,587,333,507
Balance on January 1st, 2017	52,811,058	1,311,423,098	3,024,450,920	421,220,760	19,272,785	267,144,447	491,010,439	5,587,333,507
Additions			3,370			16,502	170,777,341	170,797,213
Transfers from tangible assets in progress		37,382,966	107,303,350	36,176,207	2,684,594	16,838,579	(200,385,696)	-
Reclassifications among non-current assets accounts							(2,181,516)	(2,181,516)
Disposals	(59,067)	(275,420)	(14,556,831)	(627,352)	(441,285)	(2,231,810)	(1,221,017)	(19,412,783)
Balance on December 31st, 2017	52,751,991	1,348,530,644	3,117,200,809	456,769,615	21,516,094	281,767,718	457,999,550	5,736,536,421
Accumulated depreciation								
Balance on January 1st, 2016	138,179	-	1,624,858,514	292,074,248	8,186,162	143,906,980	-	2,069,164,083
Depreciation expenses	-	90,136,428	170,088,691	29,597,934	706,866	30,373,465	-	320,903,384
Accumulated depreciation of disposals	-	(69,916)	(6,117,426)	(1,057,384)	(279,906)	(2,591,904)	-	(10,116,536)
Balance on December 31st, 2016	138,179	90,066,512	1,788,829,779	320,614,798	8,613,122	171,688,541	-	2,379,950,931
Balance on January 1st, 2017	138,179	90,066,512	1,788,829,779	320,614,798	8,613,122	171,688,541	-	2,379,950,931
Depreciation expenses	-	87,027,784	152,253,417	38,896,676	1,988,587	29,848,167	-	310,014,630
Accumulated depreciation of disposals	-	(16,098)	(14,062,361)	(608,539)	(441,285)	(2,140,352)	-	(17,268,635)
Balance on December 31st, 2017	138,179	177,078,198	1,927,020,836	358,902,935	10,160,423	199,396,355	-	2,672,696,925

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2017*(All amounts are expressed in RON, unless otherwise indicated)***5. PROPERTY, PLANT AND EQUIPMENT (continued)**

	Land plots and land improvements	Buildings and special installations	Machinery and equipment	Control and measureme nt devices	Vehicles	Other property, plant and equipment	Property, plant and equipment in progress	Total
ADJUSTMENTS FOR IMPAIRMENT								
Balance on January 1st, 2016	-	11,479	-	-	157,307	-	12,629,493	12,798,279
Expenditures with impairment adjustments	-	(11,479)	-	-	(43,899)	-	5,048,131	4,992,753
Balance on December 31st, 2016	-	-	-	-	113,408	-	17,677,624	17,791,032
Expenditures with impairment adjustments	-	367,593	-	-	(113,408)	-	1,428,963	1,683,148
Balance on December 31st, 2017	-	367,593	-	-	-	-	19,106,587	19,474,180
BOOK VALUE								
Balance on January 1st, 2016	52,672,879	1,291,491,899	1,356,333,758	122,143,907	3,224,471	120,540,714	395,043,088	3,341,450,716
Balance on December 31st, 2016	52,672,879	1,221,356,586	1,235,621,141	100,605,962	10,546,256	95,455,906	473,332,815	3,189,591,544
Balance on December 31st, 2017	52,613,812	1,171,084,853	1,190,179,973	97,866,680	11,355,671	82,371,363	438,892,963	3,044,365,315

5. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2017, the value of land plots recorded a decrease amounting to 59,067 by the re-update of the surfaces resulted from measurements and of authentic documentation to declare subdivision into flats, subject to the Protocol no. 8044/2002 of hand over-take over concluded with Teletrans Craiova agency, as follows:

- the ground surface of 1974.21 m² pertaining to the land plot situated on 5 Brestei street, Craiova, for which the Certificate authenticating the ownership rights was obtained with series M03/10283 of 07.08.2006, has been decreased with the surface of 39.46 m²;
- the ground surface of 1325.67 m² pertaining to the land plot situated on 22 George Cosbuc street, Tg. Jiu, for which the Certificate authenticating the ownership rights was obtained with series M03/10195 of 08.11.2005, has been decreased with the surface of 15.5 m²;
- the ground surface of 1849.72 m² pertaining to the land plot situated on 422 Tg. Jiului way, Dr. Tr. Severin, for which the Certificate authenticating the ownership rights was obtained with series M03/9762 of 14.12.2004, has been decreased with the surface of 9.6 m²;

The total net value of tangible assets decreased on December 31st, 2017 compared to December 31st, 2016 due to the corresponding depreciation of 2017, which was registered against the background of increased amounts of tangible assets in progress.

In 2017, the value of tangible assets in progress increased represented mainly by investment works in the high voltage electricity substations and lines, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 43,722,468;
- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 29,160,469;
- Replacing AT and TRAFO in electrical substations - Stage II – 25,617,956;
- Upgrading the 400/110/10 kV Cluj Est substation – 12,529,350;
- Upgrading the Suceava 110 kV and 20 kV substation – 9,985,185;
- 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. – 8,710,417;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV substation – 5,812,144;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 5,734,551;
- Integrated security system in electric substations, stage IV - 3,571,263;
- Urgent repair of the damage to the Iernut - Gadalina 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 2,842,612;
- Upgrading the Tihau 220/110 kV substation - primary equipment – 2,705,653;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,625,207;
- Motor vehicles_2017 – 2,616,294;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 1,798,732;
- Upgrading the SCADA system for the Constanta Nord substation – 1,439,414;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,398,333;
- Replacing the connectors from electrical substations – 1,149,484;
- Replacing the 110/20 kV TRAFO, 10 MVA in the Fantanele 220/110/20 kV substation – 1,077,551;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,062,965;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,004,798;
- Gutinas – Smardan 400 kV OHL d.c. – 928,054;
- Creating the coexistence conditions between the Iernut Ungheni 400(220) kV OHL in the 71-72 opening and the Brasov Targu Mures Cluj Oradea Ungheni Ogra highway, km 4+500 km 14+605 – 882,093;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 818,392;
- Regulating the coexistence between the Mintia-Sibiu 400 kV OHL, in the 6-8 opening, and the Lugoj-Deva highway, 4th lot, Iliu-Deva district, km 77+361 - km 99+500 – 743,770;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 617,712;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation – 584,342;

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Notes on the stand-alone financial statements on December 31st, 2017

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

- Upgrading the Dumbrava 220/110 kV substation – 558,920;
- Technical update of the Turnu Severin Est 220/110 kV substation - 542,783.

In 2017, the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the startup of the investment objectives, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 84,925,346;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 39,630,796;
- Replacing AT and TRAFO in electrical substations - Stage II – 19,806,190;
- Integrated security system in electric substations, stage IV: Rosiori 400/220 kV substation, the Oradea Sud 400/110/20 kV station, the Paroseni 220 kV substation, the Iernut 400/220/110/6 kV substation and the Gutinas 400/220/110 kV substation – 17,278,383;
- Urgent repair of the damage to the Iernut - Gadalin 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 8,260,889;
- Upgrading the Suceava 110 kV and 20 kV substation – 6,583,432;
- Upgrading the Tihau 220/110 kV substation – primary equipment – 6,412,602;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 2,659,775;
- Motor vehicles_2017 – 2,616,294;
- Connecting the 147 MW Valea Dacilor WPP to the PTG – 2,400,930;
- Replacing the 110/20 kV TRAFO, 10MVA in the Fantanele 110/20 kV substation – 1,127,962;
- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation – 986,064;
- Creating the coexistence conditions between the Iernut Ungheni 400/220 kV OHL in the 71-72 opening and the Brasov-Targu Mures-Cluj-Oradea-Ungheni-Ogra highway, km 4+500 km 14+605 – 882,094;
- Deposit power transformers for system reserves and isolated passages in the security stock of CNTEE "Transelectrica" - SA in the Sibiu Sud 400 kV substation – 845,925;
- Upgrading the control building from the Roman Nord 400/110/20 kV substation – 675,560;
- Special intervention beams, Universally Anchored Portal type for the 220-400 kV tension, including prefabricated foundations – 643,058;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 617,713;
- Replacing the connectors from electrical substations – 567,278.

The balance of tangible assets in progress on December 31st, 2017 is represented by the projects in progress, the most significant being listed below:

- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 98,257,618;
- PTG connection of the Ivești 300 MW WPP, Fălcu 1 88 MW WPP and Fălcu 2 18 MW WPP via the new Banca (400)/220/110 kV substation – 46,884,983;
- Technical upgrade of the Bradu 400/220/110/20 kV substation – 36,793,858;
- 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. – 20,836,277;
- Extending the services providing business continuity and recovery after disasters – 14,413,918;
- Upgrading the 400/110/10 kV Cluj Est substation – 13,296,517;
- Replacing AT and TRAFO in electrical substations - Stage II – 11,639,718;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV station – 10,752,585;
- Integrated security system in electric substations, stage IV - 10,308,122;
- Upgrading the Suceava 110 kV and 20 kV substation – 9,656,270;
- Cernavodă - Stâlpu 400 kV OHL d.c. and connection in Gura Ialomitei – 8,363,002;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Resita 400/220/110 kV station – 6,572,497;
- 400 kV HVDC Link (submarine cable Romania - Turkey) – 5,853,759;

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

- 400 kV OHL Gadalin - Suceava, including the NPS interconnection - 5,661,191;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV station – 5,660,476;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 4,430,641;
- Technical upgrade of the Hasdat 220/110 kV substation – 4,397,192;
- Reparation of the failure of the 110-120 terminals of the Bucharest Sud - Ghizdaru 220 kV OHL - 4,274,774;
- Gutinas – Smardan 400 kV OHL d.c. – 3,206,287;
- 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) - 3,197,788;
- Connecting the 136 MW wind power plant Platonesti, Ialomita county, to the Grid through constructing a 110 kV cell in the Gura Ialomitei 400/110 kV station – 2,889,337;
- Assembling the optic fiber and upgrading the system of distance protections on the Tantareni-Turceni 400 kV OHL d.c. and the Urechesi-Rovinari 400 kV OHL s.c. – 2,835,840;
- Upgrading the Arefu 220/110/20 kV station - 2,828,131;
- Integrated security system in electric substations, stage III - 2,798,024;
- Upgrading the Raureni 220/110/20 kV station - 2,753,614;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,739,753;
- By-passing the Cetate 110 kV OHL 1 & 2 in the proximity of the Ostrovul Mare 110/20/6 kV substation - 2,578,438;
- PTG connection of Dumesti 99 MW WPP and Romanesti 30 MW WPP, Iasi county, through constructing a 110 kV line cell in the FAI 220/110 kV substation – 2,545,853;
- Security solution for implementing the security measures related to classified information – 2,012,114;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,763,017;
- Executive - DCBPA/CPA: Consolidation, upgrading and extension of the CNTEE "Transelectrica" headquarters – 1,627,393;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,415,333;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,243,115;
- Integrated security system at the new Banca 400/220/110 kV substation – 1,133,202;
- Deploying an optical fiber line between the Pitesti Sud substation and the remote control and installation supervision center of the Pitesti ST (SF) – 1,075,201;
- Upgrading the SCADA system for the Constanta Nord substation – 986,064;
- Upgrading the Dumbrava 220/110 kV substation – 927,421;
- Connecting the Stupina 400 kV substation to the PTG and connecting the Isaccea-Varna 400 kV OHL – 874,015;
- Replacing the connectors from electrical stations – 788,490;
- Ostrovu Mare 220 kV OHL double circuit - PTG – 754,874;
- Oradea – Beckescsaba 400 kV OHL – 740,728.

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;

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Tangible assets were not revalued in 2017. The management concluded that:

- market prices did not change significantly as compared to 2016, 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.

Buildings and special installations were revalued on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania.

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

- fixes assets classified in Group 1 - "Constructions" represented by constructions registered in the Company's accounting records as of 31st December 2015, 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, 2015, fully depreciated, 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 inventory of the public domain and for which no depreciation was calculated.

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.

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.

As of December 31st, 2017 and December 31st, 2016, the Company did not have any assets pledged or mortgaged.

Fair value of property, plant and equipment

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

The fair value of the Company'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, 2017 and December 31st, 2016:

	Level 1	Level 2	Level 3	Fair value as of December 31st, 2017
Land plots and land improvements	-	-	52,613,812	52,613,812
Buildings and special installations	-	-	1,171,084,853	1,171,084,853
Machinery and equipment	-	-	1,190,179,974	1,190,179,974
Control and measurement devices	-	-	97,866,680	97,866,680
Vehicles	-	-	11,355,671	11,355,671
Other property, plant and equipment	-	-	82,371,363	82,371,363
	Level 1	Level 2	Level 3	Fair value as of December 31st, 2016

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Land plots and land improvements	-	-	52,672,879	52,672,879
Buildings and special installations	-	-	1,221,356,586	1,221,356,586
Machinery and equipment	-	-	1,235,621,141	1,235,621,141
Control and measurement devices	-	-	100,605,962	100,605,962
Vehicles	-	-	10,546,256	10,546,256
Other property, plant and equipment	-	-	95,455,906	95,455,906

There were no transitions between the fair value levels in 2017 or in 2016.

The value at cost of property, plant and equipment as of December 31st, 2017 and December 31st, 2016, net of accumulated expenses with depreciation and impairment is presented below:

	Value at cost December 31st, 2017	Value at cost December 31st, 2016
Land plots and land improvements	8,843,786	8,784,944
Buildings and special installations	783,669,036	744,290,077
Machinery and equipment	1,184,344,466	1,171,847,235
Control and measurement devices	99,619,188	98,781,910
Vehicles	10,486,786	10,479,432
Other property, plant and equipment	95,455,882	95,455,882
TOTAL	2,182,419,144	2,129,639,480

6. INTANGIBLE ASSETS

As of December 31st, 2017 and December 31st, 2016 the Company's intangible assets are as follows:

	Licenses and software	Intangible assets in progress	Total
COST			
Balance on January 1st, 2016	68,419,502	31,902,650	100,322,152
Additions, of which:		5,048,678	5,048,678
Transfers from intangible assets in progress	2,270,566	(2,270,566)	-
Transfers from tangible assets in progress			
Disposals	(7,517,190)	(22,950,765)	(30,467,955)
Balance on December 31st, 2016	63,172,878	11,729,997	74,902,875
Balance on January 1st, 2017	63,172,878	11,729,997	74,902,875
Additions		1,919,186	1,919,186
Transfers from intangible assets in progress	1,761,191	(1,761,191)	-
Transfers from tangible assets in progress		1,087,634	1,087,634
Disposals	(7,334,214)	(78,552)	(7,412,766)
Balance on December 31st, 2017	57,599,855	12,897,075	70,496,930
ACCUMULATED DEPRECIATION			
Balance on January 1st, 2016	64,998,482	-	64,998,482
Depreciation expenses	2,593,261		2,593,261
Accumulated depreciation of disposals	(7,517,190)		(7,517,190)
Balance on December 31st, 2016	60,074,553	-	60,074,553

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Balance on January 1st, 2017	60,074,553	-	60,074,553
Depreciation expenses	1,842,159		1,842,159
Accumulated depreciation of disposals	(7,334,215)		(7,334,215)
Balance on December 31st, 2017	54,582,497	-	54,582,497
ADJUSTMENTS FOR IMPAIRMENT			
Balance on January 1st, 2016	-	753,979	753,979
Expenditures with impairment adjustments		(382,971)	(382,971)
Balance on December 31st, 2016	-	371,008	371,008
Expenditures with impairment adjustments		(19,800)	(19,800)
Balance on December 31st, 2017	-	351,208	351,208
BOOK VALUE			
Balance on January 1st, 2016	3,421,020	31,148,671	34,569,691
Balance on December 31st, 2016	3,098,325	11,358,989	14,457,314
Balance on December 31st, 2017	3,017,358	12,545,867	15,563,225

In 2017, the biggest transfers from intangible assets in progress to intangible assets are mainly represented by the startup of the investment objectives, as follows:

- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation with 8 types of licenses – 571,350.
- Licenses corresponding to the technical upgrade of the Campia Turzii 220/110/20 kV substation – 568,075;
- SCADA (software) programs in the Bradu 400/220/110/20 kV substation – 304,871;
- Software for the integrated security management system – 173,658;

For the intangible assets in progress, the largest entries in 2017 were:

- Replacement of EMS SCADA AREVA system components - software component, hardware component – 1,221,966;
- Upgrade of the existing antimalware solution – 45,414;

The balance of intangible assets in progress on December 31st, 2017 is mainly represented by:

- Implementing a system of Electronic Archiving and Document Management within CNTEE Transelectrica SA – 5,474,290;
- Replacement of EMS SCADA AREVA system components - software component, hardware component – 4,000,079;
- MIS extension – advanced reporting and budget planning solution – 3,047,834;
- Upgrading the SCADA system for the Constanta Nord substation – 571,350.

On December 31st, 2017, the tangible assets also included down payments amounting to 31,180,858, granted to the supplier ELCOMEX - IEA SA for performing the projects:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,948,593;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,265.

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

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On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no. 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex - IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator. Following the declaration of insolvency of Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189,487, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no. C163/29.07.2015 and C255/18.11.2015 and other expenses. Starting with June 30th, 2017, the down payments amounting to 31,180,858 have been reclassified from "Tangible Assets" to "Receivables", where further details are available.

7. LONG-TERM RECEIVABLES

On December 31st, 2017 the Company no longer registers long-term receivables representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high efficiency cogeneration promotion, following the integral collection of the amount of 4,557,606 representing the overcompensation for the year of 2016, amount that should have been collected starting with the month of October 2018, according to the concluded agreements.

8. INVENTORIES

On December 31st, 2017 and December 31st, 2016, the inventories (at net value) were presented as follows:

	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Spare parts	23,645,784	21,904,697
Consumables and other materials	7,352,525	7,226,833
Auxiliary materials	577,400	637,832
Other inventories	<u>438,943</u>	<u>640,286</u>
Total	<u>32,014,652</u>	<u>30,409,648</u>

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	December 31st, 2017	December 31st, 2016
Adjustments for impairment of consumables	5,672,349	4,504,931
Adjustments for impairment of other materials	1,838,752	1,924,134
Adjustments for impairment of packaging	155,991	34,293
Total	7,667,092	6,463,358

As of December 31st, 2017 and December 31st, 2016, the evolution of inventories impairment adjustments are presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	6,463,358	3,962,174
Inventories impairment adjustments	2,412,507	4,110,045
Reversal of inventories impairment adjustments	(1,208,773)	(1,608,861)
Balance at the end of the period	7,667,092	6,463,358

During 2017, the expenditures incurred with materials and spare parts consumption are presented as follows:

	December 31st, 2017	December 31st, 2016
Expenditures on spare parts	2,878,154	2,229,478
Expenditures on consumables	1,344,894	1,199,932
Expenditures on other materials	1,419,908	1,536,239
Expenditures on auxiliary materials	386,521	406,494
Expenditures on fuel	2,287,376	2,303,746
Total	8,316,853	7,675,889

9. TRADE AND OTHER RECEIVABLESOn December 31st, 2017 and December 31st, 2016, the trade receivables and other receivables are presented as follows:

	December 31st, 2017	December 31st, 2016
Trade Receivables	846,827,429	865,338,164
Other Receivables	116,051,033	129,703,771
Down payments to suppliers	11,102,342	19,155,031
Non-reimbursable funds to be received	-	-
VAT to be recovered	47,005,991	28,432,828
Adjustments for impairment of uncertain trade receivables	(122,650,719)	(100,578,031)
Adjustments for impairment of other receivables	(80,291,307)	(90,080,080)
Total	818,044,769	851,971,683

The structure of trade receivables is as follows:

	December 31st, 2017	December 31st, 2016
Customers on the electricity market, out of which:	845,529,240	863,706,722
- Clients - operational activity - energy	382,602,892	428,633,645
- Clients - balancing market	243,547,548	255,980,457
- Clients - bonus type support scheme to promote the high-efficiency cogeneration	219,378,800	179,092,620

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Clients from other activities	1,298,189	1,631,442
Total Trade Receivables	846,827,429	865,338,164

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

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

- fall in the electricity capacity provided to consumers in December 2016 compared to December 2017;
- decrease of the average tariff approved by ANRE for these services

The main current customers 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 54% 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 26% (December 31st, 2016 - 22%) of the total trade receivables.

The customers from the bonus type support scheme for promoting the high-efficiency cogeneration registered an increase in the receivables on December 31st, 2017, mainly determined by the receivables amounting to 139,913,507, registered according to the ANRE Decisions on the overcompensation of the activity regarding the support scheme for the year 2016, for which invoices were issued in the month of March 2017.

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

- the amount of 1,393,972 representing the overcompensation for the year of 2014, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 13,233,556 representing the overcompensation for the year of 2015, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 83,233,120 representing overcompensation for the year of 2016, on the grounds of reciprocal compensations made via the Management and Informatics Institute (on the grounds of DG no. 685/1999) (the amount of 29,865,930 with Enet SA, Modern Calor, Rulmenti Barlad, Soceram, Thermoenergy Group, Veolia Energie Iasi, Veolia Energie Prahova, CET Govora) and receipts in the bank account dedicated to the administration of the support scheme (the amount of 53,367,190 from CET Grivita, Electrocentrale Bucuresti, Termoficare Oradea, Thermoenergy Group, Veolia Energie Prahova)<
- the amount of 70,765 representing undue bonus for the year of 2016, on the grounds of compensations made via the Management and Informatics Institute (on the grounds of DG no. 685 / 1999) – CET Arad.

On December 31st, 2017, the Company registered receivables amounting to 168,849,902, represented by the issued invoices under the bonus type support scheme for high efficiency cogeneration, out of which:

- overcompensation for the timeframe 2011 - 2013 in the amount of 76,702,140, 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 2015 in the amount of 9,774,958, namely from Electrocentrale Oradea (debt taken over by Termoficare Oradea);
- overcompensation for 2016 in the amount of 56,680,387, namely from Electrocentrale Bucuresti – 56,680,387;
- contribution for cogeneration not collected from the suppliers of electricity consumers, in the amount of 21,213,558, namely from: Transenergo Com – 5,882,073, PetProd - 4,391,193, Romenergy Industry – 2,680,620, RAAN- 2,385,922, Arelco Power – 2,378,723, UGM Energy – 1,814,175, CET Govora – 900,864, KDF Energy – 887,527 and others.

For discharging the receivables generated by the overcompensation and the undue bonus, the Company requested the reciprocal compensations from the qualified producers in the support scheme. For producers (RAAN, Electrocentrale Bucuresti, CET Govora) that have not agreed to this way of discharging the reciprocal receivables and debts, the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no. 116/2013 for approving the Regulation on determining the way to collect the contribution for high efficiency cogeneration and payment of the bonus for the electricity produced in high efficiency cogeneration: "if the manufacturer did not make the payment in full to

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the administrator of the support scheme for its obligations resulted in accordance with the provisions of this Regulation, the administrator of the support scheme pays to the producer the difference between the invoices issued by the producer and the payment obligations of the producer on the support scheme, with explicit mention on the payment document of the respective amounts", and detained from payment the amounts due related to the corresponding support scheme.

CNTEE Transelectrica 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 installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art. 17 (5) from the Order of the ANRE Chairman no. 116/2013 and the provisions of the Agreement, in the amount of 40,507,669.

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

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

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

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

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 overtaken debt, in the amount of 29,259,377, has been spread over 24 monthly instalments (October 31st, 2016 - September 30th, 2018).

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

Other receivables

On December 31st, 2017, other receivables in the amount of 116.051.033 mainly included:

- late payment penalties calculated to late paying clients, amounting to 64,817,416 (out of which the amount of 26,021,403 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), SC CET Govora (9,606,504), SC Eco Energy SRL (8,909,843), SC Petprod SRL (8,894,655), Total Electric Oltenia (3,288,967), Arcelor Mittal Galati (2,952,319), Also Energ (2,121,010). For the penalty charges for late payment of the receivables from operational activities, depreciation adjustments were recorded.
- 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.
- the down payments granted to the supplier ELCOMEX - IEA SA amounting to 31,180,858, to which penalties amounting to 687,458 have been added. The down payments have been granted to the supplier ELCOMEX - IEA SA for performing the following projects:
 - Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,948,593;
 - Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,265.

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

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

On the day of insolvency, CNTEE Transelectrica SA held the following agreements concluded with SC Elcomex IEA SA: C163/29.07.2015: "Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad to 400 kV / the 400/220/110 kV

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Resita substation" and C255/18.11.2015 "Connecting the OHL 400 kV Isaccea-Varna and OHL 400 kV Isaccea-Dobruja in the 400 kV Medgidia Sud station, stage I". Following the declaration of insolvency of SC Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189,487 lei, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no. C163/29.07.2015 and C255/18.11.2015 and other expenses.

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

On August 8th, 2017, the judiciary administrator Pricewaterhouse Coopers Business Recovery Services IPURL considers itself bound to note the cancellation by CNTEE Transelectrica SA of the agreement no. C255 from November 18th, 2015, regarding "Connection of the Isaccea-Varna 400 kV OHL and Isaccea-Dobruja 400 kV OHL in the Medgidia Sud 400 kV OHL, Stage I", notified by the Company with letter no. 24597 from July 5th, 2017, and at the same time the termination of the agreement on the initiative of CNTEE Transelectrica SA.

Given that to the date of drafting these financial statements, the amounts guaranteed by ASITO KAPITAL SA for the payment of down payments have not been recovered, the Company registered on December 31st, 2017, impairment adjustments amounting to 31,180,858.

On July 1st, 2017, the Company submitted an application for summons regarding the issuance of a payment order, an action subject to the **case file no. 24552/3/2017 on the docket of the Bucharest Court**, Section VI Civil, requesting the Court to rule a decision obliging the debtor ASITO KAPITAL SA to pay the amount of **7,058,773.36 Euro** (*the equivalent of 31,180,857.96 lei*), representing guarantee policies for the down payments no. BR – 1500544/November 18th, 2015, and no. BR – 1500520/July 29th, 2015.

At the hearing from November 7th, 2017, after deliberation, the Bucharest Court ruled the following solution, in short:

- Admits the request.

- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 2,237,750.83 euro (the equivalent of 9,948,592.64 lei at the exchange rate of 4.4458 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no. BR-1500544/18.11.2015;

- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 4,821,022.53 euro (the equivalent of 21,233,265.32 lei at the exchange rate of 4.4041 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no. BR-1500520/29.07.2015;

- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 200 lei representing legal expenses. With right of request in annulment within 10 days from notification. Document: Decision 4067/2017 - 07.11.2017.

By the date of drafting these financial statements, Decision 4067/2017 - 07.11.2017 has not been drafted and communicated in order to be enforced.

- receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to 4,517,460;
- deferred expenses amounting to 4,807,348 mainly represented by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future periods (3,321,562), a guarantee fee for the BEI 25710 loan (83,475) and commission of ING credit granting (354,799), maintenance and technical assistance (97,220), rents (599,548);
- other long-term receivables amounting to 4,517,259, out of which 4,199,505 represent guarantees for temporary occupation of the land calculated and retained in accordance with Article 39 (1), (2) and (5) of the Law no. 46 / 2008 on the Forestry Code, in order to achieve the investment objective Resita – Pancevo (Serbia) 400 kV OHL.

Down payments to suppliers

On December 31st, 2017, the down payments to suppliers are represented by the suppliers who are debtors for services amounted to 11,102,342, out of which 11,082,612 represent amounts from transactions related to the price coupling mechanism. Application of the mechanism coupling through the price began on November 19th, 2014, the date at which the project "4 Market Market Coupling" which provides the unification of the electricity markets DAM Square (Next Day Market) from Romania, Hungary, Czech Republic and Slovakia entered in the operating phase. Within the price coupling mechanism for the day-ahead markets, the electricity exchanges correlate the day-ahead electricity transactions based on bids, taking into account the interconnection capacity provided by the TSOs, by which it is implicitly allocated CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs (MAVIR-Hungary) and manages the congestion revenues along the respective interconnection (Article 139 from ANRE Order no. 82/2014), while in relation to SC OPCOM SA it acts as Implicit Participant on the Day-Ahead Market.

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

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

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 makes a case by case analysis of uncollected trade and other receivables.

On December 31st, 2017, the highest adjustments of depreciation, calculated for the trade receivables and related penalties,

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have been recorded for SC Petprod SRL (23,539,650), SC Eco Energy SRL (24,736,066), Arelco Power (17,359,453), SC Total Electric Oltenia SA (14,185,577), Romenergy Industry (13,512,997), Elsaco Energy (9,293,972), Also Energy (7,177,167), RAAN (6,235,210), CET Brasov (4.664.627), OPCOM (4,517,460). The Company took the following measures in order to recover the impaired receivables: court proceedings, entering on the statement of affairs, requesting clarifications from ANAF (regarding the VAT collected from Opcom) and so on.

The Company's exposure to the collection risk, as well as the value adjustments for trade receivables, are presented in Note 29.

10. OTHER FINANCIAL ASSETS

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

	December 31st, 2017	December 31st, 2016
Bank deposits with maturity larger than 90 days	-	135,090,000
Total	-	135,090,000

On December 31st, 2017, the Company has no bank deposits with maturity larger than 90 days.

11. CASH AND CASH EQUIVALENTS

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

	December 31st, 2017	December 31st, 2016
Current accounts and bank deposits, out of which:	520,708,388	933,616,367
- cash and deposits from high efficiency cogeneration	19,172,948	107,811,909
- cash from revenues related to interconnection capacity allocation used for grid investments	84,247,056	77,026,910
- cash from the connection fee	31,152,565	22,532,536
Petty cash	37,850	44,789
Other cash equivalents	262	37
Total	520,746,500	933,661,193

The bank deposits with initial maturity smaller than 90 days, constituted with cash available in current accounts (including cogeneration deposits) amounted to 251,047,468 at December 31st, 2017 and to 688,114,823 at December 31st, 2016.

12. SHAREHOLDERS' EQUITY*Share capital*

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.

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

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

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

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

The shareholder structure on December 31st, 2017 and on December 31st, 2016 was as follows:

Shareholder	December 31 st , 2017		December 31 st , 2016	
	Number of shares	% of the Share capital	Number of shares	% of the Share capital
Romanian State through MECRMA	43,020,309	58.69%	43,020,309	58.69%
Other legal person shareholders	20,689,339	28.22%	25,797,725	35.19%
DEDEMAN SRL	4,192,363	5.72%	-	-
Other natural person shareholders	5,401,131	7.37%	4,485,108	6.12%
Total	73,303,142	100.00%	73,303,142	100.00%

The Company 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, 2017 and December 31st, 2016, the share capital is as follows:

	December 31 st , 2017	December 31 st , 2016
Share capital (nominal value)	733,031,420	733,031,420
Share capital balance	733,031,420	733,031,420

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

The value of shareholders' dividends distributed from the profit of 2016 according to the General Assembly Decision no. 4/April 27th, 2017 amounts to 165,445,191, and their payment is done through the Central Depository starting with June 28th, 2017. The amount of unpaid dividends as of December 31st, 2017 is 2,414,333 (December 31st, 2016: 1,312,744).

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 reserves

Legal reserves in the amount of 116,360,295 as of December 31st, 2017 and 116,360,295 as of December 31st, 2016 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 reserves

The revaluation reserve amounts to 499,921,435 as of December 31st, 2017 and 549,088,226 as of December 31st, 2016. The latest revaluation of buildings and special installations was made on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania ("ANEVAR").

Other reserves

As of December 31st, 2017, other reserves amount to 56,953,503 (56,953,728 as of December 31st, 2016), of which 20,952,260 represents the value of structural funds received from the Managing Authority for Sectoral Operational Program "Increase of Economic Competitiveness" and 32,718,386 represents the value of subsidies from connection tariffs, which were used to finance received investment works in assets that are part of the State's public domain, and 3,282,857 represents the value of the land for which certificates authenticating the ownership rights were obtained. As described in Note 26, 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.

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2017*(All amounts are expressed in RON, unless otherwise indicated)**Retained earnings*Retained earnings amount to 1.261.037.451 as of December 31st, 2017 (1.602.438.193 as of December 31st, 2016)On December 31st, 2017, the Company records an accounting loss in the amount of 47.945.023. The accounting regulations in line with the International Financial Reporting Standards approved by the OMPF no.2844 / 2016 provide the following:

(1) The retained accounting loss shall be covered from the profit of the financial year and from retained earnings, from the reserves, the share premiums and the share capital, according to the decision of the general meeting of the shareholders or associates, in compliance with the legal provisions.

(2) In the absence of express legal provisions, the order of the sources from which the accounting loss is covered is the responsibility of the general meeting of shareholders or associates, respectively of the board of directors.

On December 31st, 2017, the Company recorded a positive retained earning result corresponding to the surplus from the revaluation reserves in the amount of 834,510,994, out of which 189,989,113 surplus from the revaluation reserves not taxable at the change of destination, and 644,521,881 surplus from the revaluation reserves taxable at destination change.Considering art. 176 of the Accounting Regulations in compliance with the International Financial Reporting Standards approved by the OMPF no. 2844/2016 with subsequent amendments and completions, as well as art. III par. (1) of GO no. 64/2001 with the subsequent amendments and completions, shall be subject to the approval of the General Shareholders' Meeting, to cover the accounting loss recorded as of December 31st, 2017 in the amount of 47,945,023 lei from the positive result of the surplus from the non-taxable revaluation reserves upon the change of the destination**13. 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, 2017, the deferred revenues were as follows:

	December 31st, 2017	Out of which short term portion as of 31.12.2017	December 31st, 2016	Out of which: short-term portion as of 31.12.2016
Deferred revenues – interconnection capacity allocation	5,797,166	5,797,166	6,578,507	6,578,507
Deferred revenues - European Funds	2,558,135	2,558,135	1,320,318	1,320,318
Funds from the connection fee	311,396,019	23,558,353	319,025,555	21,082,024
European Funds	101,624,877	7,415,017	109,440,915	7,472,520
Other subsidies	30,147,052	1,552,393	31,618,306	1,671,705
Total	451,523,249	40,881,064	467,983,601	38,125,074

Evolution in advance short-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance at the beginning of the period	38,125,074	33,408,244
Advance income related to the interconnection capacity	75,479,347	38,685,253
Income from European Funds	1,327,202	1,213,273
Transfer of long-term deferred income	2,299,514	(313,881)
Revenues from the use of the interconnection capacity	(76,260,688)	(34,867,815)
Revenues from European Funds	(89,385)	-
Total	40,881,064	38,125,074

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2017*(All amounts are expressed in RON, unless otherwise indicated)***13. DEFERRED REVENUES (continued)**

The evolution in advance long-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance at the beginning of the period	429,858,527	462,721,487
Connection subsidies	14,227,840	(2,951,432)
Non-refundable funds	173,928	32,742
Non-refundable funds to be repaid	-	(137,280)
Transfer to short-term deferred revenues	(2,299,514)	608,559
Release of deferred revenues	(31,318,596)	(30,415,549)
Total	410,642,185	429,858,527

In 2017, CNTEE Transelectrica SA collected from the Ministry of Economy the amount of 163,809 lei in order to start the expropriation procedures for the privately owned immovable properties constituting the expropriation corridor for the following works of national interest:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation - Stage II - Connections in the Medgidia Sud 400 kV OHL d.c. substation;
- Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad axis/Portile de Fier – (Anina) – Resita 400 kV OHL to 400 kV;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV / stage I: Extension of the Portile de Fier 400 kV substation, Portile de Fier - Anina - Resita 400 kV OHL, Resita 400/220/110 kV Resita substation;
- Resita-Pancevo 400 kV OHL interconnection;
- Ostrovu Mare 220 kV OHL double circuit – PTG;
- Gutinas – Smardan 400 kV OHL d.c. and
- Cernavoda-Stalpu 400 kV OHL d.c. and connection in the Gura Ialomitei substation.

14. LOANS*Long-term loans*

On December 31st, 2017 and December 31st, 2016, the amounts owed to credit institutions for a period of over one year are the following:

Description	December 31st, 2017	December 31st, 2016
NIB PI No 02/18 (a)	3,417,420	11,337,158
BIRD 7181 (b)	43,603,118	74,348,437
NIB PI No 03/5 (c)	10,717,310	20,889,060
NIB PI No 02/37 (d)	5,737,176	11,182,303
KfW 10431 (e)	-	9,521,818
KfW 11300 (f)	-	9,611,198
BEI 25709 (i)	89,742,370	98,390,500
BEI 25710 (i)	97,425,565	105,910,484
ING+BRD (j)	58,712,220	95,363,100
Unsecured bonds (k)	200,000,000	200,000,000
Total long-term loans from credit institutions, out of which:	509,355,179	636,554,058
Less: Current portion of long-term loans	(314,169,245)	(134,624,060)
Total long-term loans net of current installments	195,185,934	501,929,998

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2016*(All amounts are expressed in RON, unless otherwise indicated)***14. LOANS (continued)**Overview of the long-term loans as on December 31st, 2017

No.	Loan name	Date granted	Loan value (foreign currency)	Balance at 31.12.2017 (foreign currency)	Balance at 31.12.2017 (RON)	Interest rate	Maturity as per loan
1	NIB PI 02/18	19.02.2003	18,441,684.50 USD	878,175.45 USD	3,417,420	LIBOR 6M+0,9%	16.04.2018
2	BIRD 7181	15.07.2003	71,622,715.47 EUR	9,357,494.80 EUR	43,603,118	last transmitted 0%	15.01.2020
3	NIB PI 03/5	12.11.2004	23,000,000.00 EUR	2,300,000 EUR	10,717,310	EURIBOR 6M+0,85%	17.09.2018
4	NIB PI 02/37	25.02.2004	12,927,944.17 EUR	1,231,232.77 EUR	5,737,176	EURIBOR 6M+0,9%	17.09.2018
5	BEI 25709	05.08.2010	32,500,000.00 EUR	19,259,259.30 EUR	89,742,370	3.596%	10.09.2025
6	BEI 25710	05.08.2010	32,500,000.00 EUR	20,908,119.65 EUR	97,425,565	3.856% and 2.847%	11.04.2028
7	ING+BRD	26.07.2012	42,000,000.00 EUR	12,600,000 EUR	58,712,220	EURIBOR 6M+2,75%	13.02.2019
8	Unsecured Bonds	19.12.2013	200,000,000.00 RON	200,000,000 RON	200,000,000	6.1%	19.12.2018
TOTAL					509,355,179		

14. LOANS (continued)

The 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 amount due as of December 31st, 2017 amounts to USD 878,175. The loan was granted to finance the rehabilitation of the Slatina 400/220 kV electrical substation. The loan bears a variable interest rate of six months LIBOR plus a 0.9% margin. Repayment is scheduled over 10 years in 20 instalments, from 2008 to 2018.

b) Loan no. 7181 from IBRD

The loan from IBRD was granted on July 15th, 2003 for the objective "Electricity Market". The total amount outstanding as of December 31st, 2017 is EUR 9,357,495. 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, 2017 is EUR 2,300,000. The interest rate is 6 month EURIBOR plus 0.85%, repayment is performed biannually, in equal instalments starting March 15th, 2009, with the last instalment being scheduled 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, 2017 is EUR 1,231,233. The interest rate is 6 month EURIBOR plus 0.90%, repayment is performed biannually, in equal instalments starting September 15th, 2008, with the last instalment being scheduled on September 17th, 2018.

e) Loan no. 10431 from KfW

The loan has been granted by KfW on August 12th, 2004 for the objective "Rehabilitation of the Sibiu Sud 400/220/110 kV electrical substation". As of December 31st, 2017, the loan was repaid in full. The interest rate is 6 months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

f) Loan no. 11300 from KfW

The loan has been granted by KfW on August 12th, 2004 for the "Rehabilitation and modernization of the Bucuresti Sud 400/220/100 kV electrical substation". As of December 31st, 2017, the loan was repaid in full. The interest rate is 6 months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

g) Loan 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. EIB loan no. 25709 is not guaranteed, while EIB loan no. 25710 is guaranteed by CitiBank Europe PLC, Dublin – Romania branch. The repayment period is of 15 years, with a grace period of 2 years. The repayment is scheduled from 2012 to 2025 for EIB loan no. 25709 (on 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, 2017 for the EIB loan no. 25709 is EUR 19,259,259 and for EIB loan no. 25710 EUR 20,908,120.

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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.

h) 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 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 total amount outstanding as of December 31st, 2017 is EUR 12,600,000.

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.

i) 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 are due on December 19th, 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, 2017, the financial indicators corresponding to loan agreements, including from bonds issue, were met.

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

	December 31st, 2017	December 31st, 2016
Between 1 and 2 years	51,449,375	311,711,992
Between 2 and 5 years	68,912,530	95,401,520
Over 5 years	74,824,029	94,816,486
Total	195,185,934	501,929,998

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

All the long-term loans, except for 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, 2017, the long-term loans guaranteed by the Romanian Government through the Ministry of Public Finances are: BIRD 7181, NIB PIL 03/5, NIB PIL 02/18 and NIB PIL 02/37.

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.

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

Short-term loans

The short-term Loans are detailed as follows:

	December 31st, 2017	December 31st, 2016
Current portion of long-term loans	314,169,245	134,624,060
Interest on long and short-term loans	2,460,222	3,140,317
Interest on bonds	434,521	440,555
Total short-term loans	317,063,988	138,204,932

Loans contracted for the current activity

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

This was guaranteed by:

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

On December 31st, 2017, the credit line is not used.

CNTEE Tranelectrica SANotes on the stand-alone financial statements on December 31st, 2016*(All amounts are expressed in RON, unless otherwise indicated)***15. 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 28, under *Remuneration of the Company's management*.

The long-term benefits granted 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 labor 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 Mr. Daniel Ghervase.

The obligations regarding employee benefits are as follows:

	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Anniversary premiums	24,339,697	20,697,649
Retiree premiums	12,010,992	11,482,723
Free energy provided to current and retired employees	16,296,217	11,033,095
Benefits for the employment contract termination	-	78,385
Maternity premiums	-	13,123
Total	<u>52,646,906</u>	<u>43,304,975</u>

As of December 31st, 2017 and December 31st, 2016, the Company has an obligation regarding long-term employee benefits, amounting to 52,646,906 and 43,304,975. The estimation of these obligations was made taking into account the following:

- electricity price at December 31st, 2017 and the price expected for future periods. The price estimated for the following periods is calculated as a forecast based on previous observed data for energy price;
- base salary at December 31st, 2017 and base salaries for future periods estimated by the actuary (a salary increase was taken into consideration, depending on the future development of the consumer price index);
- number of employees as of December 31st, 2017 and estimated annual number of Company employees based on projected rates of departure from the Company and statistical data on population mortality provided by INS;

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

- discount rate estimated by the actuary is based on the target level of inflation for the eurozone and an investment rate of return lower than 2%, a value which is considered desirable because it allows a long-term balance of financial markets.

15. OBLIGATIONS REGARDING EMPLOYEE BENEFITS (continued)

	December 31st, 2016	Interest cost	Cost of current service	Payments from provisions	Actuarial loss for the period	December 31st, 2017
Benefits pertaining to anniversary premiums to be granted to current employees	20,697,649	291,633	689,558	1,597,678	4,258,535	24,339,697
Benefits pertaining to maternity premiums to be granted to current employees	13,123	-	-	-	(13,123)	-
Benefits pertaining to retiree premiums of current employees	11,482,723	126,861	422,554	1,144,725	1,123,580	12,010,992
Benefits pertaining to premiums granted for the labor agreement termination	78,385	-	-	-	(78,385)	-
Benefits pertaining to the counter value of electricity to be paid to current employees after retirement	6,678,368	105,443	332,554	0	919,529	8,035,894
Benefits pertaining to the counter value of electricity paid to current retirees	4,354,727	105,154	-	579,834	4,379,826	8,260,323
	43,304,975	629,091	1,444,666	3,321,787	10,589,962	52,646,906

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

	December 31st, 2017	December 31st, 2016
Discount rate	Values in the range 3.5% - 4.6% set based on the government securities transactions on the interest curve in lei, without adjustments,	the interest curve in lei, without adjustments, December 0.975%; 1.393%; 1.799%; 2.197%; 2.565%
For the first 5 years	secondary market and correlated with the development of the inflation target level set by NBR for the following years. A long-term inflation of 2% per annum and a real return of 1.86%	the interest curve in lei, without adjustments, supplied by EIOPA for December 2016, with a peak of 4.587% for 25 years and dropping to 4.358% for 85 years
For more than 5 years		4% in the first 3 years, 3% in the 4 th year and 2% in the remaining years
Salary increase	The wages follow the inflation rate development.	

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2017*(All amounts are expressed in RON, unless otherwise indicated)***16. TRADE AND OTHER PAYABLES**

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

	December 31st, 2017	December 31st, 2016
Providers - electricity market	538,923,244	591,678,777
Asset providers	62,898,568	76,404,309
Providers of other activities	27,782,443	27,546,104
Amounts due to the employees	5,866,258	5,291,891
Other liabilities	64,466,306	173,027,119
Total	699,936,819	873,948,200

- On December 31st, 2017 and December 31st, 2016, outstanding debts on the energy market amounted to 538,923,244 and 591,678,777 respectively, and presented the following structure:

	December 31st, 2017	December 31st, 2016
Suppliers on the electricity market, out of which:		
- suppliers – operational activity – energy	110,803,907	122,864,250
- suppliers - balancing market	204,980,467	286,774,831
- suppliers in the bonus support scheme for the promotion of high-efficiency cogeneration		
	223,201,870	182,039,696
Total	538,923,244	591,678,777

- The decrease of liabilities to suppliers from the operational activity – energy came as a result of the payment of outstanding obligations on the electricity market as of December 31st, 2016.
- The decrease of liabilities to suppliers on the balancing market was due to the decrease of the amount of transactions on the balancing market in December 2017 compared to December 2016, causing an increase of liabilities to suppliers on this market, outstanding as of December 31st, 2017 compared to December 31st, 2016.

The providers on the electricity market are represented mainly by: SC Hidroelectrica SA, Electrocentrale Bucuresti, RAAN, Complex Energetic Oltenia, Mavir, Complex Energetic Hunedoara, Romgaz SA, OMV Petrom. On December 31st, 2017, their share was ca. 88% in the total number of energy suppliers.

- The increase in debts related to the support scheme towards the suppliers (producers) was determined by withholding from payment the cogeneration bonus and the ante-overcompensation owed to producers in the account of the Company's receivables not collected from the same producers in the support scheme, represented by the overcompensation of the period 2011-2013, 2015 and 2016 by applying the provisions of Art. 17 (5) of Order no. 116/2013 of the ANRE Chairman.

On December 31st, 2017, 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 cogeneration bonus and ante-overcompensation for the years 2014 and 2015, as well as the bonus not granted for the years 2015 and 2016. The amounts representing the debts of the Company regarding the support scheme towards Electrocentrale Bucuresti, RAAN and CET Govora have been retained from payment on the grounds of Article 17 (5) of the Order of the ANRE Chairman no. 116 / 2013, because the suppliers (producers) registered payment obligations towards the Company regarding the bonus type support scheme.

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

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

16. TRADE AND OTHER PAYABLES (continued)

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 installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art. 17 (5) from the Order of the ANRE Chairman no. 116/2013 and the provisions of the Agreement, in the amount of 40,507,669.

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

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

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

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

- The decrease of the balance of asset suppliers on December 31st, 2017 compared to December 31st, 2016 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 decrease compared to December 31st, 2016.

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

	December 31st, 2017	December 31st, 2016
Different Creditors	31,958,422	134,201,186
Clients - creditors	20,823,604	29,283,054
Dividends to be paid	2,414,333	1,312,744
Other liabilities	9,269,947	8,230,135
Total	64,466,306	173,027,119

On December 31st, 2017, the position "different creditors" in the amount of 31,958,422 mainly represents the net position of the support scheme for high-efficiency cogeneration, which on December 31st, 2017 registers a debt position amounting to 30,451,865 (December 31st, 2016: 128,272,529), down from December 31st, 2016 as a result of the decrease in value of the high-efficiency cogeneration contribution.

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

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

"Customers creditors" on December 31st, 2017 amounted to 20,823,604, out of which 10,276,407 represent amounts collected in advance from MAVIR and 10,407,976 represent amounts collected in advance from OPCOM within the transactions related to the price coupling mechanism.

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On December 31st, 2017, the dividends owed and unpaid to the Company's shareholders amount to 2,414,333, out of which the amount of 659,435 is related to dividends distributed from the profit of the year 2016 and the amount of 997,617 is related to dividends distributed from the profit unallocated, highlighted in the account balance "Other Revenues – Own sources of funding from profits" based on the Decision no. 11/16.10.2017 of the General Assembly of Shareholders.

These amounts are available to the shareholders through the payment agent.

Other debts amounting to 9,269,947 are mainly represented by guarantees for the proper execution of service contracts on the electricity market concluded by CNTEE Transelectrica SA, amounting to 8,400,226.

Provisions

As of December 31st, 2017 and December 31st, 2016, the provisions are as follows:

	December 31st, 2017	December 31st, 2016
Provisions for litigations	2,992,215	3,351,880
	38,498,154	
Provisions for mandate contracts		42,354,707
Provisions for the shareholding fund for employees' profit	44,799	7,968,215
Other provisions	10,019	126,976
TOTAL	41,545,187	53,801,778

Provisions in balance on December 31st, 2017 are as follows:

	Provisions for litigations	Share-based payment transactions	Provisions for the shareholding fund for employees' profit	Other provisions
Balance on January 1st, 2017	3,351,880	42,354,707	7,968,215	126,976
Additions in provisions (profit and loss account)	6,401		-	7,723
Reversal of provisions (profit and loss account)	(366,066)	(3,856,553)	(7,923,416)	124,680
Additions in provisions (AERG)	-	-	-	-
Reversal of provisions (AERG)	-	-	-	-
Balance on December 31st, 2017	2,992,215	38,498,154	44,799	10,019

Provisions for litigations outstanding as of December 31st, 2017 amounting to 2,992,215 consist mainly of provisions created for the litigation with the OPCOM subsidiary amounting to 2,670,029 regarding the fine imposed following 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 lei as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 37,828 (see Note 26 iii).

Other provisions in the amount of 10,020 represent provisions made for unpaid leave.

As of December 31st, 2017, the Company registered a provision of 38,498,154 (42,354,707 as of December 31st, 2016) for the annual variable component owed to the Directorate and Board of Supervisors members (see Note 28).

The provision amounting to 44,799 is mainly represented by the provision created for the employees' profit sharing for the financial years 2013, 2015 and 2016, amounts not granted until December 31st, 2017.

17. INCOME TAX

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2016*(All amounts are expressed in RON, unless otherwise indicated)*

The income tax for the years 2017 and 2016 is presented as follows:

	<u>2017</u>	<u>2016</u>
Current income tax expense	(24.251.054)	(66,696,654)
Net income from deferred income tax	<u>5.158.723</u>	<u>4,468,243</u>
Total	<u>(19.092.331)</u>	<u>(62,228,411)</u>

The tax on the current and deferred income of the Company for 2017 and 2016 is determined at a statutory rate of 16% and is applicable for 2017 and 2016.

Reconciliation of the effective tax rate:

	<u>2017</u>	<u>2016</u>
Profit before income tax	<u>(28.852.692) (28.852.692)</u>	<u>(28.852.692)</u>
Income tax at statutory rate of 16%	(4.616.431)	53,534,393
Effect of non-deductible expenses	50.628.921	21,529,593
Effect of non-taxable income	(22.983.684)	(5,260,670)
Taxable revaluation reserve	3.734.828	4,906,450
Legal reserve	-	(2,712,466)
Income tax exempted	(2.112.173)	(4,625,260)
Other effects	<u>(10.175.561)</u>	<u>(5,143,629)</u>
Total	<u>(19.092.331)</u>	<u>62,228,411</u>

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The movement pertaining to deferred taxes during 2017 and 2016 is as follows:

Elements	Balance at January 1 st , 2016	Recognized in profit and loss	Recognized directly in AERG	Balance at December 31 st , 2016	Recognized in profit and loss	Recognized directly in AERG	Balance at December 31 st , 2017
Property, plant and equipment – useful life	3,036,056	1,283,825	-	4,319,881	487,242	-	4,807,123
Property, plant and equipment – revaluation reserves	42,096,791	(4,520,670)	-	37,576,121	(3,605,915)	-	33,970,206
Property, plant and equipment financed by subsidies	(1,043,042)	(563,157)	-	(1,606,199)	(509,471)	-	(2,115,670)
Obligations regarding employee benefits	(3,986,704)	1,914,306	-	(2,072,398)	(1,013,028)	-	(3,085,426)
Interconnection estimate	(1,233,010)	(12,639)	-	(1,245,649)	(507,551)	-	(1,763,200)
Provisions	(4,206,845)	(2,569,908)	-	(6,776,753)	-	-	(6,776,753)
Tax (assets)/liabilities	34,663,246	(4,468,243)	-	30,195,003	5,158,723	-	25,036,280

Deferred tax consists of:

	Asset		Liability		Net	
	31-dec-17	31-dec-16	31-dec-17	31-dec-16	31-dec-17	31-dec-16
Property, plant and equipment – useful life	(1,244,583)	(854,269)	6,061,706	5,174,150	4,807,123	4,319,881
Property, plant and equipment – revaluation reserves	(3,605,916)	(4,520,669)	37,576,121	42,096,790	33,970,205	37,576,121
Property, plant and equipment financed by subsidies	(2,140,227)	(1,610,928)	24,557	4,729	(2,115,670)	(1,606,199)
Obligations regarding employee benefits	(3,085,426)	(2,072,398)	-	-	(3,085,426)	(2,072,398)
Interconnection estimate	(1,763,200)	(1,245,649)	-	-	(1,763,200)	(1,245,649)
Provisions	(6,776,752)	(6,776,753)	-	-	(6,776,753)	(6,776,753)
Net tax (assets)/liabilities	(18,616,104)	(17,080,666)	43,652,384	47,275,669	25,036,280	30,195,003

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

18. EARNINGS PER SHAREAs of December 31st, 2017 and December 31st, 2016, the earnings per share is as follows:

	2017	2016
Result for the period	(47,950,491)	272,361,543
Number of ordinary shares at the beginning and at the end of the period	73,303,142	73,303,142
Basic and diluted earnings per share (lei/share)	-0.6540	3.7155

19. OTHER TAX AND SOCIAL SECURITY LIABILITIESOn December 31st, 2017 and December 31st, 2016, other taxes and social insurance obligations included:

	December 31st, 2017	December 31st, 2016
Contribution to social insurance funds	5,097,678	4,981,239
Payroll tax	1,913,700	1,928,808
Other taxes to pay	1,676,814	1,701,162
Total	8,688,192	8,611,209

On December 31st, 2017, the Company registered payment obligations for contributions to social insurance funds, payroll tax and other taxes that were paid in the month of January 2018.

Furthermore, on December 31st, 2017, the Company also registered taxes on dividends amounting to 90,586, taxes due in January 2018.

20. 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 services provided on the electricity market are presented as follows:

	Average Price for the transmission service	Average Tariff for technological system services	Average Price for the functional system services
Order no. 48/2017 for the period July 1 st – December 31 st , 2017	16.86	9.39	1.11
Order no. 27/2016 for the period July 1 st 2016 - June 30 th , 2017	18.70	11.58	1.30
Order no. 93/2015 for the period July 1 st - June 30 th , 2016	20.97	12.58	1.17

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

The zonal tariffs regarding the transmission service for the injection of electricity into the transmission grid (T_G) and for drawing electricity off the transmission grid (T_L) have been approved by ANRE Order no. 48/2017, starting with July 1st, 2017.

The amount of electricity delivered to consumers to whom the prices for services provided on the electricity market were applied, is presented as follows:

	2017	2016
The amount of electricity delivered to consumers (MWh)	54,753,325	53,523,021

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The operating revenues earned in 2017 and 2016 are as follows:

	2017	2016
Transmission revenues	970,693,550	1,056,520,255
Revenues from allocating the interconnection capacity	75,726,834	82,232,459
Revenues from reactive energy	6,316,668	6,954,413
Revenues from Inter TSO Compensation (ITC)	1,106,452	253,892
Revenues from Own Technological Consumption (CPT) transactions	785,608	295,781
Transmission Revenues - total	1,054,629,112	1,146,256,800
Functional System Service Revenues	65,979,920	66,139,093
Revenues from technological system services	582,329,914	648,801,922
Revenues from unplanned shifts on DAM	2,436,720	1,398,572
System Service Revenues - total	650,746,554	716,339,587
Revenues on the balancing market	1,304,613,489	814,079,670
Other revenues	50,327,846	45,827,232
Total revenues	3,060,317,001	2,722,503,289

Transmission revenues

Given the rise in the amount of electricity delivered to consumers in 2017 compared to 2016, namely of 2.3% or 1,230,304 MWh, the income from the transmission service has registered a decrease in the amount of 85,826,705, determined by the decrease of the average tariffs approved by ANRE (according to the table on the average tariffs approved by ANRE for the analyzed timeframes, presented above), under the conditions laid down by the transport methodology. Thus, the tariff calculated as an average of the tariffs for the year 2017 - 17.78 lei was lower by 10.34% compared to the tariff calculated as average of the tariffs for the year 2016 - 19.83 lei

Functional system service revenues

In 2017, the revenues from functional system services registered a decrease with the amount of 159,173 compared to 2016, determined by the decrease 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).

Revenues from allocating the interconnection capacity

In 2017, the income from the interconnection capacity allocation has registered a decrease compared to 2016, in the amount of 6,505,625, corresponding to the level of usage of the available interconnection capacity by traders on the electricity market.

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

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

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

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

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

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Revenues from technological system services

The revenues from technological system services have registered a decrease in 2017 compared to 2016 in the amount of 66,472,008, mainly determined by the decrease 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), given that the amount of electricity delivered registered an increase of 2.3%.

The income from the ancillary services gained in 2017 was lower with 78,993,262 compared with the expenditures on the purchase of ancillary services that were achieved, while in 2016, the revenues from technological system services were higher with the amount of 87,774,549. The loss was caused by the unfavorable conditions on the energy market, translated in higher average unit prices in auctions compared to the foreseen unit prices on which the tariff calculation for technological system services was based on, as well as the partial recovery of profits made in the previous year on a zero profit segment.

This amount lowers the gross profit of the Company reported on December 31st, 2017.

Revenues on the balancing market

The income from the balancing market have registered an increase in 2017 compared to 2016, with the amount of 490,533,819, determined by:

- the high degree of unpredictability and volatility of production from renewable sources (especially wind).
- over-contracting / subcontracting on the markets prior to the balancing market (given that PRE s did not have significant notification imbalance values) and reduced participation / trading on the intra-day electricity market. The increasing of the negative imbalance registered at the level of the suppliers of electricity on the balancing market, ie increasing the imbalance between the notified net contractual position and the actually supplied energy;
- the very low temperatures recorded in the first quarter of 2017, which generated the recording of higher values of the electricity consumption in the operation of the NES;
- the increase in electricity consumption amid the severe weather phenomena recorded in July and August 2017 (heat in late July and early August, strong wind with storm in July, so the production in wind power plants varied a lot during the day and with large production variations from one hour to the next);
- Hydraulic evolution (low hidraulicity).

-

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

Other revenues

"Other revenues" earned in 2017, have been higher than the ones earned in 2016. This development was mainly determined by the collection of fines and penalty payments in 2017, amounting to 6,020,590 (Arelco Power SRL with the amount of 3,215,471 and Enol Grup SA with the amount of 2,541,312, etc), compared to the collection of fines and penalty payments in 2016, amounting to 30,833.

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

The system operating and balancing market expenses are as follows in 2017 and 2016:

	2017	2016
Expenses on own technological consumption	206,992,035	182,980,673
Expenses on congestions	241,042	2,931,330
Expenses on electricity consumption in RET substations	14,411,115	15,382,428
Expenses with functional system services	16,336,006	12,687,230
Expenditures on Inter TSO Compensation (ITC)	19,936,533	16,775,121
Total Operational Expenses	257,916,731	230,756,782
Expenses regarding the technological system services	661,323,176	561,027,373
Expenses on the balancing market	1,304,613,489	814,079,670
Total	2,223,853,396	1,605,863,825

Expenses on Own Technological Consumption

These represent the acquisition expenses of electricity in the free market of energy for covering its own technological consumption (CPT) in RET.

In 2017, these expenses have increased with the amount of 24,011,362 mil lei compared to the ones registered in 2016, given the reduction of the electricity quantity necessary to cover the OTC in PTG with ca. 4.6% (from 1,014,566 MWh in 2016, down to 968,042 MWh in 2017).

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

Thus, in 2017, the electricity for covering the OTC has been purchased on the free energy market, namely on the Centralized Market for Electricity Bilateral Contracts (CMBC), the Day-Ahead Market (DAM), the Balancing Market (BM) and the Intra-Day Market (IDM) at the average purchase price of 213.7 lei/MWh, compared to the average purchase price of 180.3 lei/MWh in 2016.

Expenses on congestions

Congestions (network restrictions) are requests for electricity transmission beyond the technical capacity of the network, requiring corrective actions from the transmission and system operator and occur in the situation in which, in the programming of the operation or the operation in real time, the power flow between two nodes or system areas leads to the non-accomplishment of the safety parameters in the operation of a power system. In 2017, 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.

The registered congestion expenses in 2016 amounted to 2,931,330 resulted to a great extent from accidental disconnections as a consequence of bad meteorological conditions recorded in the first part of 2016 (Tariverde – Tulcea Vest 400 kV OHL, in the month of January 2016, Iernut – Gadalin 400 kV OHL, Iernut – Baia Mare III 220 kV OHL, in the month of June 2016).

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

Expenses with 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 have registered an increase amounted to 3,648,776 in 2017 compared to 2016, mainly determined by the increase 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, due to the rise in prices on the centralized electricity markets.

Expenditures on Inter TSO Compensation (ITC)

ITC expenses, amounting to 19,936,533, 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

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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 2017, these expenditures have increased by 3,161,412 compared to 2016.

Expenses regarding 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. The contracting of these services is performed:

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

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

For the period January 1st - March 31st, 2017, the purchase of technological system services was conducted in the regulatory regime (slow tertiary reserve) according to GD no. 844/November 9th, 2016, as subsequently amended and supplemented, by which the "Winter Program in the Energy Sector for Assuring the safety and stability of the NES" was approved.

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

In the period July 1st - December 31st, 2017, the purchase of technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 906/June 22th, 2017) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 907/June 22th, 2017).

In 2017 the technological system services expenses registered an increase compared to 2016 amounting to 100,295,803, generated by the purchase prices for technological system services on the competitive market which were higher than the regulated prices.

A significant influence in the rise of prices for purchasing technological system services on the competitive market was generated by the increase in prices registered on the electricity market in 2017.

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.

Expenses on the balancing market

The expenses from 2017 related to the balancing market amounted to 1,304,613,489 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.

22. EMPLOYEE-RELATED EXPENSES

i) Employee-related expenses

	2017	2016
Expenses on staff wages	127,077,882	123,760,248
Social expenses	6,224,282	6,011,964
Expenses with employee vouchers	8,522,379	9,004,373
Expenses regarding employees' shareholding to the profit of the previous year	6,443,745	6,603,220
Expenses of the mandate contract and other committees, commissions	1,722,908	3,579,344
Expenses for social security and protection	36,753,427	38,384,677
Provisions constituted for expenses with wages and similar expenses	(9,068,671)	23,629,139
Other expenses	899,259	894,401

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	<u>178,575,211</u>	<u>211,867,366</u>
Total		

The lowering of the employee expenses in 2017 compared to 2016 has been mainly determined by the reduction of expenses pertaining to the constitution of provisions related to mandate contracts and provisions related to other wage and assimilated expenses.

ii) Average number of employees

As of December 31st, 2017 and December 31st, 2016, the average number of employees working under an indefinite individual employment contract is:

	<u>2017</u>	<u>2016</u>
Average number of employees	2,063	2,063

23. OTHER OPERATING EXPENSES

	2017	2016
Other expenses on third party services	48,979,955	50,087,334
Postage and telecommunications	1,191,817	1,295,971
Rent	8,331,468	7,846,021
Operating expenses related to the impairment of current assets , of which:	13,809,629	21,323,130
- net expense with adjustments for impairment of trade receivables	22,07,688	12,59,534
- (income)/net expenses with adjustments for impairment of various debtors	34,976,142	6,230,412
- net expenses with adjustments for impairment of inventories	1,203,735	2,501,184
	188,372,642	53,167,911
	17,584,603	21,616,404
Other expenses, of which:	1,164,391	3,929,041
- taxes and levies (tax on natural monopoly, other local taxes and levies)	5,265,843	6,369,871
- provisions for other operating expenses	3,121,617	3,012,478
- travel expenses	3,093,953	2,070,747
- international contributions	2,189,564	2,333,148
- commodities	99,927,934	22
- electricity purchased for administrative consumption	1,290,710	0
- late interest owed to the state budget, of which:	1,022,807	1,355,695
- banking and similar services - employees' travels	953,959	1,137,217
- natural gas purchased - studies and research	760,566	984,042
- disasters and other subsequent events (registered with ST Constanta and ST Craiova)	562,711	1,210,352
- other operating expenses	6,991,048	140,723
	6,991,048	9,008,171
Total	260,685,511	133,720,367

Note:

- between 14.12.2011-30.06.2017 the ANAF-DGAMC control regarding the 2005-2010 time period took place. Following the inspection, a tax inspection report was issued , concluded with the Tax Decision no. F-MC 439 / 30.06.2017, supplemented with additional notes on the date of 12.07.2017.

- the amount of 99,890,556 consists of 99,013,399 (according to the Decision mentioned above) to which accessories in the amount of 877,157, for the period 01.07.2017-26.09.2017, the date of extinguishment of the obligation to ANAF-DGAMC have been added.

- the amount of 99,013,399 consists of the amount of 35,105,092 representing additional debts (incometax and value added tax) and the amount of 63,908,307 representing additional tax liabilities (interest / increases and late payment penalties).

The additional tax liability structure in the amount of 35,105,092 is shown in the table below:

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Reference year	2005**	2006**	2007**	2008	2009	2010	Total
Income Tax	231,455	13,577,528	5,224,020	809,383	1,978,892	1,671,303	23,492,582
VAT	-	76,356	6,199,591	772,708	2,416,904	2,146,952	11,612,510
	231,455	13,653,884	11,423,611	1,582,091	4,395,795	3,818,255	35,105,092

**Note:

1) Period 1: September 2005 - November 2007: 123 missing invoices, justified by the Company as being burned in the fire that occurred on the night of June 26th -27th, 2009, at the Millennium Business Center building working point in. 2-4 Armand Calinescu street, sector 2;

2) Period 2: December 2006 - May 2007: 349 invoices found missing in the same fire

3) The VAT for the period 1 for a number of 123 invoices and that is not found in the above amounts, being detained in another fiscal inspection report (FIR) issued in 2011, litigation lost by the Company on 30.04.2014 and definitively on 01.03.2017. For the amount paid by the Company (44,443) adjustments for the receivables impairment has been registered in 2012 and 2014. In 2017, the receivable loss expense was recorded simultaneously with the reversal of the impairment adjustment, with zero effect.

4) Income tax for the 123 burned invoices: 13,735,055

5) Income tax for the 349 burned invoices: 4,787,225

6) VAT collected for the 349 burned invoices: 5,694,636

Amounts highlighted under 4), 5) and 6) represent the amounts of the FIR ended on 30.06.2017.

Interests / increases and penalties for late payment pfrom the beginning of the period up to the date of execution are shown below:

	***Amounts for 2005-2016	Amounts for 2017	Total
Interest/ delay increases and penalties for Income Tax	47,210,635	1,703,980	48,914,615
Interest/ delay increases and penalties for for VAT	14.583.302	362.325	14,945,627
	61,793,937	2,066,305	63,860,242

*** Note:

1) Accessories for the 123 burnt invoices: 31,428,658

2) Accessories related to 349 burned invoices: 22,590,804

Apart from the details presented in the previous Notes the ANAF-DGAMC findings for the 2005-2010 period include both additional liabilities and accessories corresponding to the unrealized technological system services provided in the framework agreements approved by ANRE, for which Transelectrica records revenues from penalties. At the same time, the ANAF-DGAMC detained additional liabilities and accessories corresponding to the Court of Auditors findings regarding the expenses that were not aimed at the continuous training of the employees, and which are not forms of professional training and for which the Court of Auditors Decision no. 14/2011 was issued.

In 2017, the Company challenged the ANAF Taxation Decision and, given that until March 13, 2018, the ANAF-DGAMC had failed to resolve the appeal, it requested the annulment of the Decision by the Court of Appeal of Bucharest file No 1802/2/2018.

Thus, by eliminating from the Other Expenses the amount of 97,824,251 related to the debts and interest / increases and delay penalties from the ANAF Decision, the recalculated operating profit is as follows:

	2017	2016
Revenues		
Transmission revenues	1,054,629,112	1,146,256,800
Revenues from system services	650,746,554	716,339,587
Balancing market	1,304,613,489	814,079,670
Other revenues	50,327,846	45,827,232
Total revenues	3,060,317,001	2,722,503,289

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Operating expenses		
System operating expenses	(257,916,731)	(230,756,782)
Expenses on the balancing market	(1,304,613,489)	(814,079,670)
Expenses regarding the technological system services	(661,323,176)	(561,027,373)
Depreciation	(311,853,273)	(323,363,219)
Personnel expenses	(178,575,211)	(211,867,366)
Expenses for repair and maintenance	(84,765,211)	(88,394,391)
Expenses for materials and consumables	(8,316,853)	(7,675,889)
Other operating expenses - revised	(162,861,260)	(133,720,367)
Total Operating Expenses -revised	(2,970,225,204)	(2,370,885,057)
Operating profit- revised	90,091,797	351,618,232

The Company considered that the tax base was not reasonably determined by ANAF, depending on the fully regulated nature of the activity on the electricity market, this being determined in proportionally to the number and value of the invoices issued in the period under review. Transelectrica has been entitled to bring court action because it believes that ANAF did not consider all data and documents relevant to the estimate as required by the Fiscal Procedure Code applicable at that time. Thus, the Company sued ANAF at the Bucharest Court of Appeal in August 2012 for the recovery of the sum and requested in the probationary case to be admitted the proof sample and the evidence with the judicial expertise.

On September 18th, 2013 the report of expertise was issued and submitted to the case file on the 20 September 2013 term, On the 18 October 2013 term the parties expressed objections to the judiciary expertise report, which were admitted by the Appeal Court on the 15 November 2013 term and were notified to the designated expert, On the 7 March 2014 term the expert submitted the answer to the Company's objections, As against the revenues taken into account by ANAF, used by ANAF when estimating the collected value added tax amounting to 16,303,174 the judiciary accounting expertise report found unjustified revenues in sum of 551,013 to which sum the value added tax and accessories to it should have been calculated, The hearing was deferred in order to acknowledge the answer to the objections made to the expertise report.

On the hearing date 30/04/2014 the settlement pronounced by the first instance, the Appeal Court Bucharest, Section VIII of Administrative and Fiscal Disputes (Ruling 1356/2014) in File 6657/2/2012 was: "Denies the request of claimant CNTEE Transelectrica SA (Contestation against the Administrative fiscal deed of ANAF)".

The Company filed appeal by requesting to be set within the term submitted in this file, with hearing term set on 07/04/2016, session that took place in the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section, On 07/04/2016 a new term was set on 02/06/2016 for absence of procedure, term when the instance deferred pronouncement on 16/06/2016.

On this term the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section pronounced ruling 1945/16/06/2016, stipulating as follows: "Admits the request and resets the recurrent-claimant within the appeal filing term, Denies as groundless the appeal filed by the National Power Grid Company Transelectrica against Sentence 1365 of 30 April 2014 of the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes section, Irrevocable, Pronounced at public hearing today, 16 June 2016", Ruling 1945/16/06/2016 pronounced by the High Court of Cassation and Justice was notified to the Company by photocopy.

Contest for annulment was filed against the ruling 1945/16/06/2016 submitted to the High Court of Cassation and Justice, On 01/03/2017 the High Court of Cassation and Justice decided in ruling 779 as follows: "denies the exception of inadmissibility of contestation for cancellation filed by contender Transelectrica SA, invoked by statement by the respondent in appeal General Directorate Adminstrating Large Tax Payers, Denies as groundless the contestation for cancellation filed by contender Transelectrica SA against civil ruling 1945 of 16 June 2016 of the High Court of Cassation and Justice, Section of administrative and fiscal disputes, pronounced in file 6657/2/2012, Irrevocable", Until the elaboration date of these financial statements the Company has not received the printed ruling 779/01/03/2017.

The additional payable liabilities set by ANAF-DGAMC under the taxation decision 62/2011 were registered under "other operational expenses" by including the provision constituted in the financial years 2012 and 2014 into revenues:

- Recording within the indicator "operational expenses regarding depreciation allowances for current assets" the depreciation allowances for:
 - Elcomex IEA SA in the amount of 31,868,316;
 - Arelco Power SRL in the amount of 18,782,312;
 - other uncertain clients and various debtors amounting to 7,602,937 (Elsaco Energy SRL, Eva Energy, Enol Grup SA, CET Govora SA, PetProd SRL, etc.),

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	2017	2016
Interest revenues	5,428,137	5,666,055
Revenues from exchange rate differences	11,430,141	21,157,006
Other financial revenue	2,240,682	3,136,969
Total financial revenue	19,098,960	29,960,030
Expenses on interest	(21,560,125)	(23,995,214)
Expenses from exchange rate differences	(18,659,073)	(22,407,867)
Other financial expenses	0	(585,227)
Total financial expenses	(40,219,198)	(46,988,308)
Net financial result	(21,120,238)	(17,028,278)

The decrease of the net financial result regarding the exchange rate differences in 2017 compared to 2016, amounting to 4.091.960, was negatively influenced by the evolution of the exchange rate of the national currency in relation to foreign currencies in which the Company has contracted bank loans for financing the investment programs (Euros, Dollars), which made that the decrease in exchange-rate income to be only partly offset by exchange and interest rate fluctuations, amid a 30% decrease in the Other Financial Income position.

The average exchange rate of the national currency registered in 2017, compared with the one registered in 2016 is as follows:

Currency	2017	2016
Lei / Euros	4.5681	4.4908
Lei / US Dollars	4.0525	4.0592

25. LEGISLATIVE AND FISCAL FRAMEWORK

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

26. COMMITMENTS AND CONTINGENCIES*i) Commitments*

As of December 31st, 2017 and December 31st, 2016, the Company had commitments amounting to 1,121,769,861 and 1,036,117,363 mainly representing ongoing contracts related to the investment program for the modernization and upgrading of the transmission grid.

ii) Land plots used by the Company

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.

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.

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 – Section II Civil, 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 from the support scheme and withheld from payment by the Company, in its capacity as Administrator of the support scheme, who enforced the provisions of Article 17 (5) of ANRE's Order no. 116 / 2013 (see Note 9).

The amount was enforced by RAAN on July 15th, 2016, as per the Decision issued by the Bankruptcy Receiver Office Ailiesei si Guta in the enforcement file no. 12105/2016.

By civil decision no. 843/2015, the Craiova Court of Appeal rejected the appeal filed by CNTEE Transelectrica SA against civil sentence no. 127/10.10.2014, as lacking interest.

Against the decision no. 843/May 11th, 2015 of the Court of Appeal Craiova - Section II Civil, pronounced in the public hearing from May 11th, 2015, in file no. 3616/101/2014, 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 decision is subject to appeal in higher court.

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

Under these conditions, RAAN calculated penalties for late payment of the due cogeneration bonus in the amount of 3,496,914, 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 Litigations, the **file no. 9089/101/2013/a138** was recorded, involving the "presidential ordinance", a file in which the Company is the defendant, the plaintiff being the

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Autonomous Authority for Nuclear Activities - RAAN – debtor in insolvency.

Through the sentence no. 63/2016, the court ordered the defendant to continue the electricity transmission and system services necessary for continuing the activity throughout the judicial reorganization of the RAAN.

Transelectrica filed an appeal against that decision.

On May 10th, 2016, the Craiova Court of Appeal delivered its judgment no. 457/05.10.2016, which ordered the following: "Dismisses the appeal. Rejects the appeal as ill-founded. Final."

Also, the hearing of the appeal declared by RAAN against the decision of starting the bankruptcy proceedings, subject of file no. **9089/101/2013/a137** before the Court of Appeal Craiova, was postponed until May 31st, 2016, when the case was taken for judgement.

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.

- 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 for lacking territorial jurisdiction. Declines jurisdiction in favor of Bucharest Court, Section VI Civil. With no means of appeal.' The file was registered to the Bucharest Court - Section VI Civil, under no. 24206 / 3 / 2015.

The applicant RAAN filed a request to amend the amount of the alleged right, seeking the increased amount of 17,805,680.17 lei from Transelectrica SA.

On November 3rd, 2015, the Bucharest Court, Section VI Civil delivered the sentence no. 6075 / 2015, by which it ordered the following: 'Upholds the application in the way it was completed. Orders the defendant to pay the plaintiff the amount of 17,805,680.lei, representing the equivalent value of the bonus and penalties. Dismisses the application for granting legal expenses, lodged by the plaintiff, as ill-founded. With appeal within 30 days from communication. The appeal is lodged at the Bucharest Court - Section VI Civil.'

The ruling was communicated on July 4th, 2016, according to the registration entry stamp of the correspondence with Transelectrica SA. An appeal was lodged against the sentence. By Hearing protocol from January 12th, 2017, pronounced in the file no. 24206/3/2015, the Court of Appeal Bucharest ordered the postponement of the hearing of the appeal until the final settlement of the file no. 9089/101/2013/a152 on the docket of the Mehedinti Court, on the grounds of Article 413 (1) (1) of the New Civil Procedure Code. With appeal throughout the suspension.

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

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

By the application for summons filed by the applicant, they asked Transelectrica SA to pay the amount of 10,274,679.11.

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

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

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

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

By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 15,698,722.lei.

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. With appeal throughout the suspension.

- Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the **file no. 9089/101/2013/a140** was recorded, involving the "claims in the amount of 86,513,431", 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 lei.

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

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

Through the sentence no. 387/March 20th, 2014, the Mehedinti Court confirmed the reorganization plan of the debtor Autonomous Administration for Nuclear Activities, proposed by the insolvency administrator Tudor & Partners SPRL and voted on by the General Assembly of Creditors according to the minutes of February 28th, 2014.

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

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

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

Together with filing the receivables declaration in the bankruptcy proceedings of RAAN, Transelectrica SA may invoke the provisions of Article 52 of Law no. 85/2006, applicable to the bankruptcy proceedings for RAAN, provisions taken from Article 90 of Law no. 85/2014 concerning the creditor's right to invoke the compensation of his receivable with the one of the debtor, when the legal provisions on compensation in legal proceedings are completed on the date of commencement of the procedure. Transelectrica SA has been registered in the table of debtor RAAN with the amount of 11,264,777.30 lei under the category of receivables resulting from the continuation of the debtor's activity, the amount requested by our company being equal to 89,360,986.06 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 78,096,208.76 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. Objection was filed against the Table. The Mehedinti Court approved the evidence with the audit expertise. The parties lodged objections against the audit expertise report, which were admitted by the court who set the hearing on February 22nd, 2018.

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

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

At the hearing from February 8th, 2017, the objections against the expert report have been notified. Hearing: 22.03.2017

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

On June 26th, 2014, the ANRE Order no. 51 was issued, published in the Official Journal under no. 474/June 27th, 2014 on the approval of the average tariff for the transmission service, the tariff for the system service and the zonal tariffs for the transmission service, payable to the National Power Grid Company "Transelectrica" - SA, and the repealing of Addendum no. 1 of the ANRE Chairman's Order no. 96/2013 regarding the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the tariffs for the reactive electrical energy, payable to economic agents from the electricity sector.

The values taken into consideration for calculating the Regulated Rate on Return (RRR¹) by ANRE, according to the Methodology on establishing the tariffs for the electricity transmission service, approved by ANRE Order no. 53/2013 ("the Methodology") have determined a RRR value of 7.7%.

CNTEE Transelectrica SA considers that the enforcement of the provisions of Article 51 of the Methodology on establishing the Beta (β) parameter at the value of 0.432 shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138.4 mil. lei³, having a significant impact on the financial interests of the company.

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

At the hearings from March 25th, 2016, April 22nd, 2016, June 10th, 2016 and March 3rd, 2017, the court postponed the judgement of the cause because of the missing technical expertise report. The next hearing was set for February 13th, 2018.

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

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

On November 24th, 2014, the subsidiary SC OPCOM SA summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086.31 euro (2,585,161.72 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 euro.

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 37,828.08.

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

On July 24th, 2015, the Bucharest Court ruled the judgement no. 4275/2015, by which it ordered the following: "Admits the application for summons filed by plaintiff Romanian Gas and Electricity Market Operator - OPCOM S.A. against defendant National Power Grid Company "Transelectrica" S.A. Orders the defendant to pay the plaintiff the amount of 582,086.31 euro, representing the amount paid by the plaintiff in the defendant's stead from the fine in the amount of 1,031,000 euro, imposed by the Decision of the European Commission on March 5th, 2014 in the case no. AT.39984 and of the lawful interest related to

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

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

³ Calculated value compared to the RRR of 8.52%

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the amount of 582,086.31 euro, calculated on June 11th, 2014 and up until the day of the actual payment. Orders the defendant to pay the plaintiff the amount of 37,828.08 lei, as legal expenses. With right of appeal within 30 days from notification. The request for appeal shall be lodged before the Bucharest Court – Section VI Civil."

Against sentence no. 4275/2015, pronounced in the aforementioned file, Transelectrica SA filed an appeal, which was registered on the docket of the Court of Appeal Bucharest. The resolution of the Court of Appeal is the following: Admits the appeal. Changes the appealed civil sentence completely, meaning that it rejects the application for summons as ill-founded. Orders the appellee - plaintiff to pay the trial expenses to the appellant - defendant amounting to 16,129, representing legal stamp duty. With appeal within 30 days from notification. Ruled in open court today, October 10th, 2016. Document: Decision 1517/2016 from October 10th, 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. 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.

In 2014, the company recorded a provision amounting to 2,670,029 for the litigation with the subsidiary SC OPCOM SA.

- In 2013, Conaid Company SRL took legal actions against CNTEE Transelectrica for the unjustified refusal of the latter to sign an addendum to the connection agreement or to sign a new connection agreement, and requested the compensation for costs incurred up to that time, amounted to 17,419,508 lei and loss of profit for the period 2013 - 2033 amounting to EUR 722,756,000. So far, the Company did not conclude an addendum to the connection agreement because the suspensive provisions included therein have not been met by Conaid Company SRL. A new connection agreement would have had to be concluded by March 11th, 2014, the date on which the technical connection permit has expired. On the date of these financial statements, the amounts claimed by Conaid Company SRL were regarded as contingent liabilities as it is unlikely to settle this obligation, there will be necessary outflows of resources embodying economic benefits and the value of obligation cannot be evaluated with sufficient reliability. **The file no. 5302/2/2013** was on the docket of the High Court, involving the obligation of issuing of an administrative document, the procedural stage – second appeal, the hearing being on December 9th, 2015. At this hearing, the High Court of Cassation and Justice admitted, in principle, the second appeals and set the hearing, in substance, of the second appeals on April 8th, 2016, Formation 4, summoning the parties. The case trial was postponed for the date of June 17th, 2016, when the court reserved judgement, postponing the judgement until June 29th, 2016, when it pronounced Decision no. 2148/2016, by which it ordered the following: 'Rejects the exceptions invoked by the appellant - plaintiff S.C. Conaid Company S.R.L., via insolvency administrator RVA Insolvency Specialists SPRL, and by the appellant - defendant National Company for Energy Transportation Transelectrica S.A. Admits the second appeal filed by the defendant National Company for Energy Transportation Transelectrica S.A. against the hearing protocol of February 18th, 2014 and the civil sentence no. 1866 of June 11th, 2014, pronounced by the Court of Appeal Bucharest – Section VIII, Administrative and Fiscal Litigation Section. Partially invalidates the contested protocol and judgment and refers the case to the Bucharest Court – Section VI Civil, for settlement of the application of the plaintiff sought against the National Power Grid Company Transelectrica S.A. Maintains the other provisions of the sentence concerning the plaintiff's action against the National Regulatory Authority for Energy. Rejects the second appeals of the plaintiff SC Conaid Company S.R.L. via insolvency administrator RVA Insolvency Specialists SPRL and the intervener S.C. Duro Felguera S.A. against the civil sentence no. 1866 of June 11th, 2014 pronounced by the Bucharest Court of Appeal – Section VIII, Administrative and Fiscal Litigation. Rejects the second appeal filed by the defendant National Power Grid Company Transelectrica S.A. against the hearing protocol from March 25th, 2014, pronounced by the Bucharest Court of Appeal - Section VIII, Administrative and Fiscal Litigation. Final. Ruled in open court today, June 29th, 2016.

On the docket of Bucharest Court – Section VI Civil, the case was registered under no. 12107/3/2017. By civil sentence no. 4364/23.11.2017, the Court admits the exception to the ineligibility of the claim and rejects it as ineligible. It also rejects the motion to intervene in the interest of the plaintiff. With right of appeal within 30 days from notification. The appeal is lodged at the Bucharest Court - Section VI Civil. Sent to the parties via registry today, November 23rd, 2017.

- 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.

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• Case file no. 47332/3/2017 on the docket of the Bucharest Court - Section VI Civil, by which the company FF Wind Energy Internațional SRL requests the following against CNTEE Transelectrica SA: - the annulment of the unilateral statement for the termination of the PTG connection agreement no. 85/14.03.2011 issued on March 2nd, 2016 under no. 8295, - ordering the Company to pay the amount of 33 mil. lei as damages following the termination of the agreement and to pay the amount of 45,000,000 euro as the amount of depreciation of the company FF Wind Energy Internațional SRL caused by the impairment of its purpose. Status of the file: in preliminary proceedings for notification of the action and filing statement of defense.

• 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). The company recorded adjustments for value losses for the customers and other receivables in litigation and for the customers in bankruptcy. The Company also acted as plaintiff in a dispute with ANAF as shown in Note 9.

At the same time, the Company is also involved in litigation, with former members of the Directorate and the Supervisory Board, regarding the mandate contracts concluded between the Company and them.

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

iv) Guarantees

As of December 31st, 2017 and December 31st, 2016, the guarantees are presented as follows:

	2017	2016
Guarantees granted, of which:	381,752,861	461,878,512
- letters of guarantee granted – production	44,554,186	36,325,204
- letters of guarantee granted – investments	183,961,869	238,616,854
- other guarantees granted	153,236,806	186,936,454
Guarantees received, of which:	497,215,685	502,121,541
- letters of guarantee received – production	184,226,150	220,878,950
- letters of guarantee received – investments	264,728,801	233,729,248
- other guarantees received	48,260,734	47,513,343

Guarantees granted

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 concluded a loan agreement for issuance of bank letters of guarantee with EximBank SA, the value of which being 29,422,392 as of December 31st, 2017.

On December 27th, 2017, the Company concluded a loan agreement for issuance of bank letters of guarantee with Banca Comerciala Romana amounting to 26,805,370 and valid between January 1st, 2018 and December 31st, 2018.

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.

Guarantees received

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

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v) Revaluation reserves as of December 31st, 2017

On December 31st, 2017, the revaluation reserves amount to 533,839,585 (compared to 586,619,248 in December 31st, 2016).

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.

vi) Tariffs for electricity transmission and system services

The tariff for electricity transmission is set based on the "revenue cap" methodology. Using this methodology, ANRE sets an initial annual target revenue calculated by summing up the regulated costs and the regulated return of recognized assets. Certain costs included in the base of regulated costs are subject to efficiency requirements limiting the level of expenses that may be recovered through the regulated tariff (controllable operating and maintenance costs, own technological consumption). The annual target revenues calculated for a regulatory period are redirected through a linearization procedure aiming at softening any severe increases/decreases of revenues from one tariff year to the 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, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017). For 2017, 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 2017, tariffs for the transmission and system services were approved by ANRE Order no. 27/2016 and for the second semester of 2017 by ANRE Order no. 48/2017.

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 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). By way of exception, the tariff for the technological system services approved for the fourth tariff year has been revised pursuant to the provisions of Art. 45 of ANRE Order no. 45/2017, from 9.39 lei/MWh to 12.06 lei/MWh, applicable starting with January 1st, 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.

Service	Tariff applied in the first semester of 2017 (approved by ANRE Order no. 27/2016)	Tariff applied in the second semester of 2017 (approved by ANRE Order no. 48/2017)
	lei/MWh	lei/MWh
Electricity transmission service	18.70	16.86
Functional system services	1.30	1.11
Technological system services	11.58	9.39

vii) Contingencies

The following control measures are ongoing at the Company's 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 objectives undergoing

verification for 2012-2016 are presented below:

- substantiating and executing the revenues and expenses 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,
- The Ministry of Economy – Direction for Minister Control Body – the control commenced on January 18th, 2018 – the objectives of the measure are: verifying the observance of legal provisions and internal norms pertaining to the entity's organization and functioning, verifying the way in which the acquisition activity is organized and performed, verifying the way in which consultancy, legal assistance and representation and litigation agreements are concluded and performed, verifying the way in which the sponsorship agreements are concluded and performed, verifying the way in which the transportation expenses are made, analysis of the way in which orders, instructions and other requirements of the Ministry of Economy in the specific field of activity are performed, verifying the completion status of the measures ruled via previous reports, comparative analysis of the entity's economic and financial results in the last three years of activity.
- National Agency for Public Procurement – the control started on February 26th, 2018 – the control aimed at verifying the observance of the rules pertaining to the drafting of technical specifications for the allocation procedure of the agreement for the Technical upgrade of the Turnu Severin Este 220/110 kV substation – procurement notice no. 166637/15.03.2016.

On 31 December 2017 Teletrans SA, a Company subsidiary, was subject to control began on 29.05.2015 by the General Division of Economic-Financial Audit of the Public Finance Ministry, the audited interval being 01.01.2010-31.12.2014 according to Mission orders 82/27.05.2015 and 01.01.2015- to date, according to Mission order 38/31.05.2017; the objectives of the economic-financial audit were:

- fundamentals and execution of the revenue and expense budget;
- compliance with 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 mode of organisation and exercise of compulsory internal / managerial control;
- verifying the compliance with the provisions of GO 26/2001 with respect to enhancing financial discipline at certain economic operators where the state or administrative-territorial units are single or majority shareholders or hold directly / indirectly some majority participation, from 2015 to date.

On December 31, 2017, Teletrans SA, the subsidiary of the Company, was subject to control by the General Division- for Economic and Financial Inspection of the Ministry of Public Finance regarding the period 2010-2014 and finalized in 2018. The Economic and Financial Inspection Report Draft issued on February 21st, 2018 specifies that, as a result of the leasing of the assets belonging to the public state domain (capacities and infrastructure elements of the public telecommunications network) with disregard by the Company's representatives and Teletrans S.A. of the provisions of art. 14, art. 15 and art. 16 of Law no. 213/1998 on the public property, the state budget would have been damaged in a total amount of 88,778,158 representing sums collected and not paid to the state budget in the period 2006-2016.

In the letter 13443 from 26.03.2018 written by Teletrans, it 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 operation of the optical fibre excess, the juridical nature of the contractual relation took into account the legal opinion of Bostina&Asociatii according to which the previous contract C45/2006 was deemed a mandate contract without representation about "SC TELETRANS SA concluding in its own name but on account of Transelectrica's public telecommunication network contracts with a view to trade 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.

Until the date of approval of the stand-alone financial statements for the year ended on December 31st, 2017, the Company did

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not complete the analysis necessary to determine the possible effect of the result of the economic and financial inspection report issued on 21 February 2018 on the separate financial statements of the Company for the year ended on 31 December 2017.

27. RELATED PARTIES

i) Subsidiaries held by the Company

Entity	Home country	December 31 st , 2017 % of shares	December 31 st , 2016 % of shares
SMART SA *)	Romania	70	70
TELETRANS SA	Romania	100	100
ICEMENERG SA **)	Romania	-	-
OPCOM SA	Romania	100	100
FORMENERG SA	Romania	100	100
ICEMENERG SERVICE SA	Romania	100	100

The total value of the shares held by the Company in its subsidiaries amounted to 78,038,750 on December 31st, 2017 and to 78,038,750 on December 31st, 2016.

The gross value of the Company's holdings in its subsidiaries is as follows:

SC SMART SA

SC SMART SA, with registered office at 33Magheru 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. The subsidiary was incorporated by GD no. 710/July 19th, 2001 on November 1st, 2001. The share capital as of December 31st, 2016 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
 - no. of shares 3,852,860
 - shareholding quota in gains and loss: 70.005%
- The Romanian State via the Government Secretariat-General
 - no. of shares 1,650,770
 - shareholding quota in gains and loss: 29.994%

On January 25th, 2016, the amendment regarding the change of the shareholding 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. With right of appeal within 30 days from notification. The appeal is lodged with the Bucharest Court Section VI Civil. Pronounced in open court today, November 16th, 2015". CNTEE Transelectrica SA lodged an appeal, which was registered on the docket of the Court of Appeal, the case being settled at the hearing from May 23rd, 2016, when the Court of Appeal Bucharest ruled the civil decision no. 903/23.05.2016,

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by which it ordered the following: "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."

SC TELETRANS SA

SC TELETRANS SA, with registered office at 16 – 18 Hristo-Botev Blvd., district 3, Bucharest, has as main activities process and management IT maintenance services, telecommunication and IT specific services in the PTG, telephony and data transmission. The subsidiary was incorporated as per Decision no. 3/2002 of the General Assembly of Shareholders. The share capital as of December 31st, 2016 amounted to 6,874,430, subscribed and fully paid up.

SC ICEMENERG SA

SC "Filiala Institutul de Cercetări și Modernizări Energetice" – ICEMENERG SA, with registered office at 8 Energeticienilor Blvd., district 3, Bucharest, has as main activities research and development in physical and natural sciences, innovation, studies, development strategies, design, city planning, engineering and other technical services. The subsidiary was incorporated as per GD no. 1065/September 4th, 2003. The share capital as of December 31st, 2016 amounted to 1,083,450, subscribed and fully paid up.

**) On April 7th, 2014 it was accepted by the National Trade Register, the file registration number 121452/April 3rd, 2014 involving the deregistration of the Subsidiary Institute for Energy Research and Modernization – ICEMENERG SA Bucharest. Through the order no. 123/March 13th, 2014 (act of registration and authorization of functioning), was registered at the Trade Register the "National Institute of Research and Development for Energy Bucharest" (GD no. 925/2010). The company filed a complaint against the resolution of ORC director ordering the registration in the trade register of the deregistration of the Subsidiary ICEMENERG SA Bucharest.

Bucharest Court, Civil Section VI, through the sentence no. 3569/July 14th, 2014 pronounced in the file no. 15483/3/2014, in which the company was found in contradiction with the defendants the Subsidiary Institute for Energy Research and Modernization "Icemenerg" S.A. Bucharest and the National Institute of Research and Development for Energy-Icemenerg Bucharest rejected the complaint of the Company, motivated by the fact that GD no. 925/2010 was not abolished until the deregistration at ORC (Trade Register Office). The Court of Appeal has notified on February 24th, 2015 the solution pronounced in the file no. 15483/3/2014 and namely Decision no. 173/2015, which dismissed the appeal of CNTEE Transelectrica SA as ill-founded, the decision being final.

Against the Decision no. 173/2015, pronounced by Bucharest Court of Appeal, Transelectrica SA filed an appeal for annulment, which makes the object of the file no. 1088/2/2015 before the Court of Appeal - Section VI Civil, with hearings on 13th May, 2015. On May 13th, 2015, by Decision no. 777/2015, the Court of Appeal Bucharest dismissed the appeal for annulment as ill-founded, the decision being final.

At the meetings from March 28th, 2016 and August 30th, 2016, the Extraordinary General Assembly did not approve the decrease of the share capital of CNTEE Transelectrica SA with the amount of 1,084,610, representing the share capital subscribed and paid of the ICEMENERG SA Bucharest subsidiary, by decreasing the shareholding of the Romanian State in the share capital of CNTEE Transelectrica SA, for enforcing the provisions of GD no. 925/2010.

In 2015, the Company registered an impairment amounting to 1,083,450 for the shares held by the Institute for Energy Research and Upgrades – ICEMENERG SA Bucharest subsidiary, which was removed from the register.

SC OPCOM SA

SC OPCOM SA with its registered office at 16-18 Hristo Botev Blvd., district 3, Bucharest, with legal personality, has as its main object of activity the organization, administration and supervision of the energy market and was incorporated by GD no. 627/2000. The share capital as of December 31st, 2016 amounted to 30,687,300, subscribed and fully paid up.

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

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

The amendment of the articles of incorporation of SC OPCOM SA, based on the Decision no. 6/15.06.2016 of the Extraordinary General Assembly of Shareholders, was registered at the Trade Registry Office according to the Certificate for Registration of Specifications of 11.07.2016. As of 31.12.2016, the share capital is registered in the financial statements subject to GAS approval by OPCOM are presented as subscribed and fully paid-up share capital.

SC FORMENERG SA

SC FORMENERG SA with its registered office at 3 Gh. Sincai Blvd., district 4, Bucharest, with legal personality, has as its main object of activity the initial and continuous training of energy personnel and other beneficiaries in all fields of activity and was incorporated by Decision no. 33/2001 of the General Assembly of Shareholders. The share capital as of December 31st, 2016 amounted to 1,948,420, subscribed and fully paid up.

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SC ICEMENERG SERVICE SA with its registered office in Bucharest, 8 Energeticienilor Blvd., district 3 has as its object of activity the design, manufacturing, implementation, repair, modernization and marketing of machines, equipment and specialized installations inland and abroad. GD no. 2294/09.12.2004 approved the transfer of the package of shares held by subsidiary "Institutul de Cercetari si Modernizari Energetice – ICEMENERG" - S.A. Bucharest in the subsidiary "ICEMENERG-SERVICE" - S.A. Bucharest to the National Power Grid Company "Transelectrica" - S.A. The share capital as of December 31st, 2016 amounted to 493,000, subscribed and fully paid up.

On June 9th, 2017, the Bucharest Court – Section VI Civil pronounced the entering into bankruptcy under the simplified procedure of the debtor subsidiary ICEMENERG SERVICE – SA, and appointed Solvendi SPRL as temporary liquidator.

In 2016, the Company registered an impairment amounting to 493,000 for the shares held by the SC ICEMENERG SERVICE SA subsidiary.

ii) *Related parties – main economic and financial indicators obtained by the Company's subsidiaries as of December 31st, 2016*

The main economic and financial indicators obtained by the Company's subsidiaries as of December 31st, 2016 (the last financial year for which the financial statements were approved) are as follows:

No.	Indicator name:	SMART	TELETRANS	OPCOM	FORMENERG	ICEMENERG SERVICE
1.	Turnover	73,679,190	39,206,834	28,344,278	3,338,817	980,381
2.	Gross profit/(loss)	(10,500,488)	4,980,340	672,262	(1,510,957)	(3,550,431)
3.	Paid-up share capital	55,036,300	6,874,430	8,100,000	1,948,420	493,000
4.	Paid-up share capital	-	-	22,587,300	-	-
5.	Reserves	4,232,189	17,582,354	8,991,096	1,721,952	12,709
6.	Equity - total	76,466,840	30,463,704	44,471,886	13,267,819	(1,923,521)

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Related party	Trade receivables		Trade payables	
	December 31 st , 2017	December 31 st , 2016	December 31 st , 2017	December 31 st , 2016
SC SMART SA	16,884,019	404,257	8,992,426	15,471,838
SC TELETRANS SA	192,966	267,525	7,361,973	6,531,203
SC FORMENERG SA	-	-	-	3,960
SC OPCOM SA	23,995,729	30,921,913	7,442,483	6,747,421
TOTAL	41,072,714	31,593,695	23,796,882	28,754,422

The transactions with subsidiaries during 2017 and 2016 are detailed below:

Related party	Sales		Purchases	
	2017	2016	2017	2016
SC SMART SA	739,124	1,064,431	65,360,069	79,564,566
SC TELETRANS SA	3,174,815	2,879,312	32,164,216	32,619,227
SC FORMENERG SA	-	-	177,072	158,301
SC OPCOM SA	516,466,529	342,103,814	217,836,584	153,759,926
TOTAL	520,380,468	346,047,557	315,537,941	266,102,020

In 2017, the Company received dividends from the following subsidiaries:

- SC TELETRANS SA – 2,179,493 (1,819,170 in year 2016);
- SC OPCOM SA – 0 (1,218,069 in year 2016);

iv) Related parties – transactions with other State-owned companies

The Company is a majority State-owned company.

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

The value of the Company's transaction with State controlled entities or over which the State has significant influence account for an important share of sales and purchases registered in the year ended December 31st, 2017.

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

During 2017, CNTEE Transelectrica SA collected from the Ministry of Economy the amount of 163,809 lei in order to start the expropriation procedures for the privately owned immovable properties constituting the expropriation corridor for the following works of national interest:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation - Stage II - Connections in the Medgidia Sud 400 kV OHL d.c. substation;
- Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad axis/Portile de Fier – (Anina) – Resita 400 kV OHL to 400 kV;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV / stage I: Extension of the Portile de Fier 400 kV substation, Portile de Fier - Anina - Resita 400 kV OHL, Resita 400/220/110 kV Resita substation;
- Resita-Pancevo 400 kV OHL interconnection;
- Ostrovu Mare 220 kV OHL double circuit – PTG;
- Gutinas – Smardan 400 kV OHL d.c. and
- Cernavoda-Stalpu 400 kV OHL d.c. and connection in the Gura Ialomitei substation.

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(see Note 13).

28. REMUNERATION OF 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:

	2017	2016
<u>Management employed based on IEC</u>		
Short-Term Benefits	9,822,029	10,269,611
Other long-term benefits	121,078	266,803
<u>Members of the Directorate and the Board of Supervisors</u>		
Fixed component	1,611,448	1,566,138
Variable component	0	2,013,206
Total	11,554,555	14,115,758

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, 2017, the number of OAVTs granted to the Board of Supervisors members of Transelectrica is as follows:

Package	No. of OAVTs	Date granted	Due date	Weighted average price for the month prior to granting as per the mandate contract
Package 1				
November 15 th , 2013	644,545	15.11.2013	15.11.2016	13.1484 (lei/share)
Package 2				
November 15 th , 2014	571,561	15.11.2014	15.11.2017	26.6040 (lei/share)
Package 3				
November 15 th , 2015	355,640	15.11.2015	15.11.2018	25.9986 (lei/share)
Package 4				
November 15 th , 2016	415,274	15.11.2016	15.11.2019	29.0861 (lei/share)

As of December 31st, 2017, 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	Due date	Weighted average price for the month prior to granting as per the mandate contract
Package 1				
May 15 th , 2014	567,978	15.05.2014	15.11.2016	13.1484 lei/share
Package 2				
November 15 th , 2014	657,973	15.11.2014	15.11.2017	26.6040 lei/share
Package 3				
November 15 th , 2015	522,418	15.11.2015	15.11.2018	25.9986 lei/share
Package 4				
November 15 th , 2016	474,837	15.11.2016	15.11.2019	29.0861 (lei/share)

28. REMUNERATION OF COMPANY'S MANAGEMENT (continued)

Details pertaining to OAVT calculation model:

	Package 1	Package 2	Package 3	Package 4
Validity	3 years	3 years	3 years	3 years
Way of exerting	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

Thus, as of December 31st, 2017, the Company recorded a provision amounting to 38,498,154 (42,354,707 as of December 31st, 2016) 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.

29. FINANCIAL INSTRUMENTS*Financial risk management*

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

The Company does not have formal arrangements to mitigate financial risks. However, the financial risks are monitored by management focusing on the needs of the Company in order to make sure that the opportunities and threats are matched efficiently.

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

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 31st, 2017	December 31st, 2016
Fixed interest rate instruments		
Financial liabilities	389,449,493	478,649,422
Variable interest rate instruments		
Financial liabilities	122,800,429	161,485,508

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

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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 2017	Loss 2016
RON	-	(5,323)
EUR	(19,980)	(1,325,060)
USD	(1,696)	(21,266)
Total	(21,676)	(1,351,649)

As of the reporting date, a 100% depreciation of 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 2017	Profit 2016
RON	-	5,323
EUR	19,980	1,325,600
USD	1,696	21,266
Total	21,676	1,351,649

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

Exchange rate risk

The Company 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 Company'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, USD and JPY. 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 Company's exposure to foreign currency risk, expressed in RON, is as follows:

December 31st, 2017	Value	RON	EUR	USD
Monetary assets				
Cash and cash equivalents	520,746,500	465,835,289	54,895,551	15,660
Other financial assets	-	-	-	-
Receivables	818,039,300	752,891,505	65,147,795	-
Gross exposure	1,338,785,800	1,218,726,794	120,043,346	15,660
Monetary liabilities				
Suppliers and other liabilities	708,625,011	642,775,953	65,849,058	-
Loans	512,249,922	200,434,521	308,380,208	3,435.193
Gross exposure	1,220,874,933	843,210,474	374,229,265	3,435.193
Net balance sheet exposure	117,910,867	375,516,320	(254,185,920)	(3,419.533)

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29. FINANCIAL INSTRUMENTS (continued)

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

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

The following significant exchange rates were used:

	Average exchange rate		Exchange rate as of	
	2017	2016	December 31st, 2017	December 31st, 2016
RON/ EURO	4.5682	4.4908	4.6597	4.5411
RON/ USD	4.0524	4.0592	3.8915	4.3033

Sensitivity analysis of exchange rate risk

A 10% appreciation of the RON against the following currencies as of December 31st, 2017 and December 31st, 2016 would have increased the gross profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit 2017	Profit 2016
EUR	25,418,592	42,631,441
USD	341,953	1,133,218
JPY	-	-
Total	25,760,545	43,764,658

A 10% depreciation of the RON against the following currencies as of December 31st, 2017 and December 31st, 2016 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 2017	Loss 2016
EUR	(25,418,592)	(42,631,441)
USD	(341,953)	(1,133,218)
JPY	-	-
Total	(25,760,545)	(43,764,658)

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2017*(All amounts are expressed in RON, unless otherwise indicated)***29. FINANCIAL INSTRUMENTS (continued)***Credit risk*

The credit risk is the risk in which the Company bears a financial loss following the non-fulfilment of contractual obligations by a customer or counterparty to a financial instrument. This risk results mainly from trade receivables and the cash and cash equivalents.

The treatment of counterparty risk is based on internal and external factors of success of the Company. The external factors of success – which have an effect upon the systematic reduction of the risk, are: decentralizing the energy sector in which the production, transmission, distribution and supply are separate activities and the customer interface is represented by the supplier, the electricity trading on the Romanian market on two market segments: the regulated market and the competitive market. The internal factors of success in the treatment of counterparty risk include: diversifying the client portfolio and diversifying the number of services on the electricity market.

Financial assets that may submit the Company 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 risk of collection related to such receivables is limited, as these amounts are mainly owed by the state-owned companies.

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

At the date of reporting, the maximum exposure to the risk of collection was:

	December 31st, 2017	December 31st, 2016
Financial Assets		
Net trade receivables	724,176,710	764,760,133
Other net receivables	35,759,726	87,211,550
VAT to be recovered	47,005,991	28,432,828
Cash and cash equivalents	520,746,500	933,661,193
Other financial assets	-	135,090,000
Total	1,327,688,927	1,949,155,704

The situation of receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	557,134,751	1,268,176	639,151,930	4,568,505
Due date exceeded by 1 to 30 days	1,649	2,345	12,638,227	-
Due date exceeded by 31 to 90 days	2,780,207	2,853,477	5,519,233	-
Due date exceeded by 90 to 180 days	(322,245)	-	836,994	359,345
Due date exceeded by 180 to 270 days	58,688,984	1,618,294	27,274,940	7,725,361
Due date exceeded by 270 to 365 days	25,856,404	21,850,588	6,206,328	-
Due date exceeded by more than a year	202,687,679	95,057,839	173,710,511	87,924,820
Total	846,827,429	122,650,719	865,338,164	100,578,031

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2017*(All amounts are expressed in RON, unless otherwise indicated)***29. FINANCIAL INSTRUMENTS (continued)**

The situation of other receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	69,822,161	2,525,896	64,477,570	323,854
Due date exceeded by 1 to 30 days	55,235	0	15,861	8,810
Due date exceeded by 31 to 90 days	63,007	57,063	56,503	30,487
Due date exceeded by 90 to 180 days	34,644,875	34,533,556	6,064,159	4,791,499
Due date exceeded by 180 to 270 days	2,954,880	2,925,623	2,317,148	669,292
Due date exceeded by 270 to 365 days	179,445	112,945	3,159,723	594,621
Due date exceeded by more than a year	66,439,763	40,136,225	101,200,666	83,661,517
Total	174,159,366	80,291,308	177,291,630	90,080,080

The Company's policy is to record impairment adjustments for value loss of 100% for clients in litigation, insolvency and bankruptcy, and 100% of trade receivables and other receivables not re paid in more than 180 days, except for outstanding claims 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 2017, calculated for trade receivables and related penalties were recorded for SC Eco Energy SRL (24,736,066), SC Petprod SRL (23,539,650), Arelco Power (17,359,453), SC Total Electric Oltenia SA (14,185,577), Romenergy Industry (13,512,997), Elsaco Energy (9,293,972), RAAN (8,516,707), Elsaco Energy (7,177,167), CET Brasov (4,664,627), OPCOM (4,517,460). In order to recover the receivables adjusted for impairment, the Company took the following measures: court action, enrollment at creditor table, requesting clarifications from ANAF (for VAT to be collected from Opcom), etc.

At the same time, the Company has registered an impairment adjustment of the amount of 44,442,936 due to the total liabilities paid to ANAF. (see Note 9).

The evolution of adjustments for impairment of receivables is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	100,578,031	87,986,497
Recognition of adjustments for impairment	36,575,509	21,129,610
Reversal of adjustments for impairment	14,502,821	(8,538,076)
Balance at the end of the period	122,650,719	100,578,031

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

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	90,080,080	84,159,760
Recognition of adjustments for impairment	38,009,855	7,501,245
Reversal of adjustments for impairment	47,798,627	(1,580,925)
Balance at the end of the period	80,291,308	90,080,080

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 policy regarding liquidity risk management implies maintaining sufficient cash and cash equivalents and the

CNTEE Transelectrica SA

Notes on the stand-alone financial statements on December 31st, 2017

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

availability of funding through adequate credit facilities.

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2017*(All amounts are expressed in RON, unless otherwise indicated)***29. FINANCIAL INSTRUMENTS (continued)**

	December 31st, 2017	December 31st, 2016
Assets		
Monetary assets in RON	1,218,732,263	1,847,220,562
Monetary assets in foreign currency	120,059,006	83,277,273
	1,338,791,269	1,930,497,835
Liabilities		
Monetary liabilities in RON	(843,210,474)	(1,001,770,284)
Monetary liabilities in foreign currency	(377,664,459)	(520,923,855)
	(1,220,874,933)	(1,522,694,139)
Net monetary position in RON	375,521,789	845,450,278
Net monetary position in foreign currency	(257,605,453)	(437,646,582)

The Company's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they mature.

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2016*(All amounts are expressed in RON, unless otherwise indicated)***29. FINANCIAL INSTRUMENTS (continued)**

The following table illustrates the contractual maturities of financial liabilities, including interest payments:

	Net value	Contractual value	<12 months	1 – 2 years	2 – 5 years	> 5 years
December 31st, 2017						
Financial liabilities						
Suppliers and other liabilities	(699,936,819)	(699,936,819)	(686,485,795)	(12,613,029)	(837,995)	
Other tax and social security liabilities	(8,688,192)	(8,688,192)	(8,688,192)	-	-	
Loans	(512,249,922)	(1,271,507,524)	(317,063,988)	(51,449,375)	(68,912,530)	(74,824,029)
Total	(1,220,874,933)	(1,980,132,535)	(1,012,237,975)	(64,062,404)	(69,750,525)	(74,824,029)
	Net value	Contractual value	<12 months	1 – 2 years	2 – 5 years	> 5 years
December 31st, 2016						
Financial liabilities						
Suppliers and other liabilities	(873,948,200)	(873,948,200)	(873,948,200)	-	-	-
Other tax and social security liabilities	(8,611,209)	(8,611,209)	(8,611,209)	-	-	-
Loans	(640,134,730)	(1,622,599,794)	(138,204,894)	(311,711,992)	(95,401,520)	(94,816,486)
Total	(1,522,694,139)	(2,505,159,203)	(1,020,764,303)	(311,711,992)	(95,401,520)	(94,816,486)

CNTEE Transelectrica SANotes on the stand-alone financial statements on December 31st, 2016*(All amounts are expressed in RON, unless otherwise indicated)***29. FINANCIAL INSTRUMENTS (continued)***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, 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 31st, 2017	Book value	Fair value	Level
Financial assets			
Net trade receivables	724,176,710	724,176,710	Level 1
Other net receivables	46,862,068	46,862,068	Level 1
VAT to be recovered	47,005,991	47,005,991	Level 1
Cash and cash equivalents	520,746,500	520,746,500	Level 1
Other financial assets	-	-	Level 1
	1,338,791,269	1,338,791,269	
December 31st, 2017	Book value	Fair value	Level
Non-current financial liabilities			
Loans, less bonds	195,185,934	195,185,934	Level 1
Bonds	-	-	Level 1
	195,185,934	195,185,934	
Current financial liabilities			
Trade payables and suppliers of non-current assets	699,936,819	699,936,819	Level 1
Loans	117,063,988	117,063,988	Level 2
Bonds	200,000,000	200,000,000	Level 1
Liabilities towards employees and other liabilities	8,688,192	8,688,192	Level 1
	1,025,688,999	1,025,688,999	
December 31st, 2016	Book value	Fair value	Level
Financial assets			
Trade receivables	764,760,133	764,760,133	Level 1
Other net receivables	87,211,550	87,211,550	Level 1
Cash and cash equivalents	933,661,193	933,661,193	Level 1
Non-reimbursable funds to be received	135,090,000	135,090,000	Level 1
	1,951,132,524	1,951,132,524	
December 31st, 2016	Book value	Fair value	Level
Non-current financial liabilities			
Loans, less bonds	301,929,798	440,134,730	Level 1
Bonds	200,000,000	200,000,000	Level 1
	501,929,798	640,134,730	
Current financial liabilities			
Trade payables and suppliers of non-current assets	873,948,200	776,167,704	Level 1
Loans	138,204,932	167,362,306	Level 2
Liabilities towards employees and other liabilities	8,611,209	6,763,363	Level 1
	1,020,764,341	950,293,373	

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	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Financial assets		
Cash and bank balances	520,746,500	1,068,751,193
Receivables	818.044.769	861,746,642
Financial liabilities		
Depreciated cost	1,220,874,933	1,522,694,139

Personnel risk and the salary scheme

As of December 31st, 2017, 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 companies in which it is the majority shareholder may lead to a major fluctuation within the specialized work force.

Capital risk management

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

Debt ratio indicator

	<u>December 31st, 2017</u>	<u>December 31st, 2016</u>
Short and long-term loans	512,249,922	640,134,930
Cash and bank balances	(520,746,500)	(933,661,193)
Other financial assets	-	(135,090,000)
	<u>(8,496,578)</u>	<u>(428,616,263)</u>
Shareholders' equity	2.,717,146,656	3,107,714,414
Debt ratio	-	-

30. FEES CHARGED BY EACH STATUTORY AUDITOR OR AUDIT FIRM

The total fees charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax consultancy services and for non-audit services according to Art. 38 of Annex no. 1 to the Order no. 2844/2016 of the Ministry of Public Finances, as subsequently amended and supplemented, related to the year 2017, are as follows:

- **SC Deloitte Audit SRL** - Contract no. C210/30.10.2017 – 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 fulfillment 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. 113 letter G paragraph (6) of Regulation no. 1/2006 issued by the National Securities Commission – fees for 2017 – 200,000, to which VAT is added;
- **SC PKF Finconta SRL** – Contract no. C75/11.04.2016 – tax consultancy services – fees for 2017 – 36,700, to which VAT is added.

- **SC Econsulting SRL** – Contract no. C266/03.12.2015 – audit services for the project called "Studies regarding the new 400 kV OHL d.c between the Smardan and Gutinas substations", financed via European Funds within the TEN-E program for the period April 1st, 2011 - January 27th, 2017 - fees for 2017 - 2,569;
- **SC Deloitte Audit SRL** – Contract no. C166/04.09.2017 – Independent report for limited assurance of information included in current reports drafted by the company as per provisions of Law no. 297/2004 and Regulation no. 1/2006 - fees for 2017 – 4,500, to which VAT is added;

31. SUBSEQUENT EVENTS

Acceptance of mandate for interim member of the Supervisory Board

According to the Decision no 1 of Ordinary General Shareholders' Meeting from January 9, 2018, Mr. Constantin DUMITRU was appointed as a temporary member of the Supervisory Board, with a term of office until March 30, 2018. The appointment of Mr. Constantin DUMITRU became effective starting with January 15, 2018, the date of signing before the public notary of the statement of acceptance of the mandate as an interim member of the Supervisory Board of the National Power Grid Company "Transelectrica" S.A.

Extension of the directorate mandate

In the meeting on January 15th, 2018, the Supervisory Board decided to extend through an addendum, the Mandate Contract of the interim members of the Directorate for a period of 2 months, respectively until March 16th, 2018. Therefore, the composition of the Directorate is as follows:

1. Georgeta - Corina POPESCU 2. Andreea - Georgiana FLOREA 3. Dan - Valeriu ARDELEAN 4. Mircea - Toma MODRAN 5. Florin - Cristian TĂTARU.

Grant approval in the amount of 27,085,000 euro

On January 25, 2018, the European Commission approved a grant of € 27,085,000 for the construction of the Cernavoda-Stalpu 400 kV power line. The Cernavodă - Stâlpu airline will contribute to increasing interconnection capacity between Romania and Bulgaria and to the integration of wind energy in the Dobrogea area.

The Cernavodă-Stâlpu 400 kV line will be about 160 km long and for its commissioning it is necessary to build the 400 kV Stâlpu station and to expand the Cernavoda and Gura Ialomiței stations. According to the 10-year Development Plan of CNTEE Transelectrica SA, 400kV Cernavoda-Stâlpu OHL will be completed in 2020.

The Cernavoda-Stalpu Line Project, part of the Black Sea Corridor Cluster, is one of the six major investment objectives of the National Power Grid Company Transelectrica SA, which is on the third list of projects of common interest (PCI) on energy infrastructure adopted in November 2017 by the European Commission. The total value of the six investments is about one billion lei. All of these projects contribute to the achievement of the 400kV national ring, an objective included in the governance program, which leads to an increase in the operational safety of NPSs and the achievement of an economical operating regime for the PTGs.

Loans for current activity

Transelectrica signed the credit contract no. C55 / 01.03.2018 with Raiffeisen Bank for a period of 12 months for the financing of the high efficiency cogeneration bonus scheme, in the form of an overdraft facility amounting to 100,000,000, at an interest rate calculated according to the reference rate ROBOR 1M, plus a negative margin of 0.35%. If the reference rate is less than 0.35%, the interest rate applied is 0%. This was guaranteed by:

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

Appointment of interim Directorate Members

As the term of office of the current members of the Directorate ceases on March 16, 2018, the Board of Supervisors, as of March 17, 2018, appointed the following persons as interim members of the Board of Directors as of March 17, 2018:

1. Georgeta – Corina POPESCU

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2. Andreea – Georgiana FLOREA

3. Dan – Valeriu ARDELEAN

4. Florin - Cristian TĂTARU

The mandate is granted for a period of 4 months with the possibility of extending the mandate, for solid reasons, for further two months. The term of office shall not exceed the date of finalization of the selection procedure of the members of the Directorate of the National Power Grid Company "Transelectrica" SA in the conditions of art. 642 of G.E.O. no. 109/2011 if the procedure is completed within this interval. In accordance with Art. 18 par. (4) of the Constitutive Act of the National Power Grid Company "Transelectrica" -SA, the Supervisory Board elects as the Chairman of the Executive Board, alternatively Chief Executive Officer or Chief Executive Officer - "CEO" - of the Company) of the National Company of Power Transmission "Transelectrica" SA, starting with March 17, 2018, Ms Georgeta - Corina POPESCU. The appointment of the above-mentioned Directors will become effective on the date of signing before the public notary of the declaration of acceptance of the mandate of the Director of the National Power Grid Company "Transelectrica" SA.

Mandate Acceptance – Interim Directorate Members

The interim members of the Executive Board, appointed on March 14, 2018 by the Supervisory Board, signed the declaration of acceptance of the mandates on March 15, 2018, their appointment becoming effective as of March 17, 2018, according to the declaration of acceptance of the mandates .

The accompanying consolidated financial statements were approved by the management on March 26, 2018 and signed on its behalf by:

Directorate

**Georgeta - Corina
POPESCU
Chairman**

**Andreea Georgiana
FLOREA
Member**

**Dan - Valeriu
ARDELEAN
Member**

**Florin - Cristian
TATARU
Member**

Cristina STOIAN

Economics and Financial Strategy Department
Director

Cristiana ZIRNOVAN

Budgeting and Management Reporting Department