

NOTE

Regarding approval of operations in the competence of the Shareholders' General Extraordinary Assembly with respect to the Reorganisation / Recovery Plan of the Company's subsidiary - the Maintenance Service Company for the Transmission Grid SMART SA

The Maintenance Service Company for the Transmission Grid SMART SA (**hereinafter referred to as "SMART SA"**) has the following shareholder structure:

- The National Power Grid Company Transelectrica **SA (hereinafter referred to as "the Company")** holding 70.006% of the share capital;
- The Romanian state through the Ministry of Economy, holding 29.994% of the share capital.

I. Reorganisation / Recovery Plan of the Maintenance Service Company for the Transmission Grid SMART SA – context and powers of statutory bodies

In September 2017, in the context of a deterioration in the economic and financial situation of SMART SA, the Shareholders' General Assembly by Decision 4/2017 regarding the request of SMART SA's Shareholders' General Assembly to the Board of administration, decided for the Board of Administration **to submit a reorganisation plan of company activities in order to recover the company's economic and financial situation as well as its implementation schedule**. Then in the context of SMART SA's request to the Company to issue a corporate guarantee letter to ING Bank NV Amsterdam to secure the Loan Agreement 08164 / 14.04.2008 (where SMART SA is the debtor and ING Bank NV is the creditor), the Company requested such a plan from SMART SA as a prerequisite for considering the issuance of a corporate guarantee letter by the Company.

By letter 44304 / 17.10.2018, the Company requested SMART SA to send the following documents by 31.10.2018: *the reorganisation / recovery plan, the list of eligible free assets and assets proposed to be mortgaged, including equipment, showing the guarantee potential and the sufficient coverage, the existing reassessment reports for SMART SA assets, the stage of the loan agreement 08164 / 14.04.2008 with ING Bank NV Amsterdam.*

SMART SA submitted letter 1150 / 31.10.2018 (registered in the Company under no. 466650 / 31.10.2018) by which it submitted to the Company: *SMART SA's report on economic and financial indicators of 30.09.2018 compared to the indicators of 30.09.2017, respectively 30.09.2016; Report of budget implementation as of 30.09.2018 and the list of buildings and land proposed for mortgage to obtain the corporate guarantee letter issued by the Company to ING Bank NV Amsterdam to secure the loan agreement 08164 / 14.04.2008.*

At the same time, SMART SA sent to the Company letter 1200 / 14.11.2018 (registered in the Company under no. 49056 / 14.11.2018) attaching to the Company the following documents: *SMART SA's 2019-2023 Reorganisation / Recovery Plan accompanied by its synthesis; a CD with assessment reports drawn up by ANEVAR assessors for the evaluation of SMART SA constructions as of 31.12.2016 - date of the last reassessment, and the list of buildings and land proposed for mortgage in order to issue the corporate guarantee letter, the answer of ING Bank N.V. Amsterdam on the loan agreement's renegotiation stage 08164 / 14.04.2008.*

On 29.11.2018 SMART SA sent letter 8130 / 29.11.2018 to the shareholders:

- **Reorganisation / Recovery Plan of the Maintenance Service Company for the Transmission Grid SMART SA** - structured in *Reorganisation / Recovery Plan of the Maintenance Service Company for Transmission Grid SMART SA synthesis and THE REORGANISATION / RECOVERY STRATEGY OF THE MAINTENANCE SERVICE COMPANY FOR TRANSMISSION GRID SMART SA;*
- SMART SA Board of Directors' **Decision 43 / 28.11.2018** according to which "the Board approves the Reorganisation / Recovery Plan of the Maintenance Service Company for the Transmission Grid SMART SA attached to this Decision and requests the chairman to send the Reorganisation / Recovery Plan to the two shareholders of SMART SA"

As regards SMART SA's competence and the Company's statutory bodies, we add the following:

- In accordance with article 12 para (1) letter k) of the SMART SA Articles of association, it is the responsibility of SMART SA's Shareholders' General Assembly to "approve the proposals regarding the global strategy for development, modernisation, economic and financial restructuring of SMART, as well as to contract long-term bank loans", in this respect the reorganisation / recovery plan has to be approved by SMART SA's Shareholders' General Assembly insofar as the plan contains proposals for the economic and financial global restructuring strategy;
- the competence to approve the mandate for SMART SA's Shareholders' General Assembly (for which there is currently no call from the Board) belongs as a rule to the Directorate according to article 25 let h) of the Company's Articles of association, but we note the plan includes two measures involving derogation statutory approvals:
 - a) the issuance of a corporate guarantee letter by the Company to ING Bank NV Amsterdam for 1 year to guarantee the Loan Agreement 08164 / 14.04.2008 (in which SMART SA is debtor and ING Bank N.V. Amsterdam is creditor);
 - b) increase the share capital of SMART SA with a contribution of 27 million lei.

Thus, regarding the issuance of a corporate guarantee letter by the Company to ING Bank NV Amsterdam for 1 year to guarantee the Loan Agreement 08164 / 14.04.2008 (in which SMART SA is debtor and ING Bank NV is creditor), it is like the Company assumes liabilities of a loan granted in capacity of creditor. ING Bank NV Amsterdam requests this guarantee under the assumption that SMART SA fails to repay the borrowed amounts. In such a case, ING Bank NV Amsterdam will start enforcement proceedings against the Company based on this Letter and therefore the Company will become a creditor of SMART SA for the executed amounts.

With respect to the share capital increase of SMART SA, the Company's participation means the participating to the share capital of another company, namely an additional participation into SMART SA's share capital.

In article 14 para (3) the Company's applicable Articles of association provide the following:

“(3) In addition to the competence and attributions mentioned in para (2) above or by law, the shareholders' general extraordinary assembly decides on the following issues:

- a) The Company's achievement of any type of loan or loan-type liabilities as a creditor;
- b) Establishing or participating in the setting up of entities with distinct legal personality, with a patrimonial or non-patrimonial purpose, as well as participating to the share capital of other companies; (...)

II. Economic and financial analysis regarding the Reorganisation / Recovery Plan of the Maintenance Service Company for the Transmission Grid SMART SA

Since the financial situation of subsidiary SMART SA worsened in comparison when it took the loan (contract 08164 / 14.04.2008), beginning with 2016 ING Bank started discussing both with SMART SA and the Company about the need to enhance the guarantee structure, while also presenting alternative solutions available to both companies in order to continue the financing of SMART SA in terms acceptable to the parties.

In this context by SMART SA letter 8130 of November 29, 2018, accompanied by the *Reorganisation / Recovery Plan for 2019-2023*, the subsidiary requested the Company to issue a Corporate Guarantee Letter in favour of the bank covering the entire contracted loan (according to the addendum concluded between SMART SA and ING Bank in May 2018 by which SMART SA committed itself to ING Bank - without the prior approval of the Company - that it would submit a Corporate Guarantee Letter issued by the Company until 30.09.2018). In addition, the subsidiary also requests a share capital increase of 27 million Lei, to cover the losses of previous years (22 million Lei), as well as for investment expenses (5 million Lei).

Elements examined using the data taken from the reorganisation / recovery plan submitted by SMART SA subsidiary

In this context, we have analysed:

A. Profit and loss account

1. Revenues
2. Expenses
3. EBITDA
4. Exercise result

B. Current capital:

1. Debts
2. Inventories
3. Suppliers

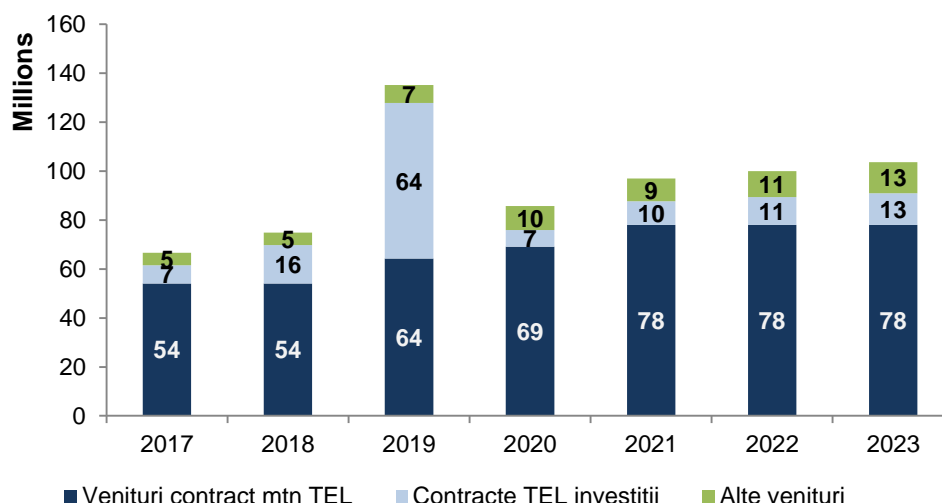
C. Operational cash flow

D. Equities

A. Profit and loss account

1. Operational revenues
 - a. Analysis of operational revenues

SMART SA forecasts an annual average turnover growth of 7.6% (compared to 2017), starting from a total of 66.5 million Lei in 2017 and reaching 103.6 million Lei in 2023.



In this structure the highest share is that of revenues from maintenance contracts with the Company, which has a 6.3% annual average growth compared to 2017. In absolute values the revenues from minor maintenance are estimated by the subsidiary to increase 10 million Lei in 2019 compared to 2017 and 15 million Lei in 2020 & 24 million Lei in 2021 compared to 2017. Equally, the subsidiary aims at doubling its revenues from customers (others than the Company) by 2020.

b. Analysis of operational revenue quality

In 2018 the revenues obtained under the maintenance contract with the Company amount to 54 million lei.

As mentioned in the Reorganisation / Recovery Plan, maintenance works are decreasing given the modernisation and refurbishment works in the substations, a situation also justified by the Company's 2019-2021 draft BVC where the maintenance costs with SMART SA have decreasing values.

Taking into account the Company has budgeted expenses lower than the revenues forecasted by SMART SA (2019: 56 million Lei vs. 64 million Lei, 2020: 52 million Lei vs. 69 million Lei, 2021: 50 million Lei vs. 78 million Lei), and that the subsidiary did not provide strong arguments for this revenue increase in the Reorganisation / Recovery Plan, we express our reluctance regarding the realism and the sustainability to record the stated values.

2. Operational expenses

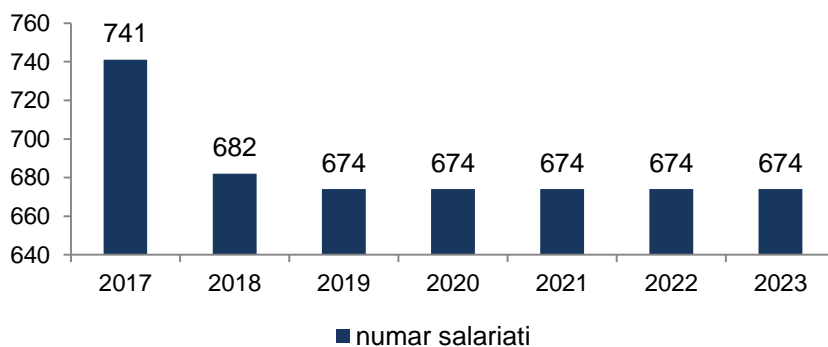
As regards operational expenses, in the studied period (2017-2023) there is 5.4% annual average increase, beginning with a total of 69.7 million Lei in 2017 and growing to 95.6 million Lei in 2023. But the growth rate is lower than that of sales growth (7.6%).

The reorganisation / recovery plan mainly focuses on the following:

- Reducing rent by giving up the existing space and moving to another location (held by Formenerg);
- Reducing costs with inventory items, business trips and also diminishing mandate contracts;
- The plan also provides personnel cuts from 682 employees to 674, while the number of branches is reduced from 8 to 3. In exchange such reduction is not accompanied by a

drop of wage costs, which register 4.3% annual average increase (justified – according to explanations – by the minimum wage increase).

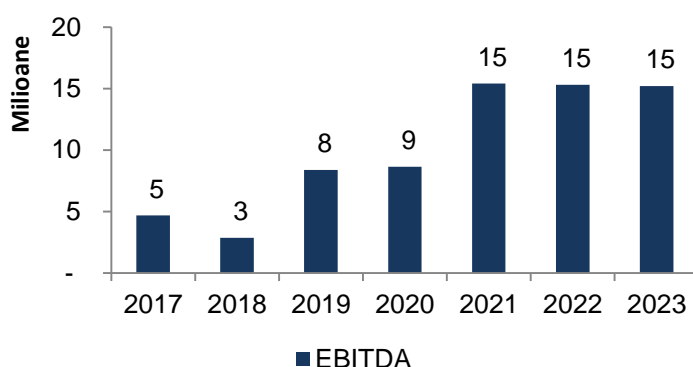
	2017	2018	2019	2020	2021	2022	2023
Salarii si alte retributii	27,57	34,22	39,87	40,87	41,78	42,67	43,57
Cheltuieli contracte mandat	0,68	0,73	0,60	0,44	0,44	0,44	0,44
Contributii salarii	7,35	1,50	1,68	1,70	1,72	1,74	1,76
Costuri salariale	35,60	36,45	42,15	43,01	43,94	44,85	45,77



- An important cost component is that of raw materials and consumables. In the forecasted period their value is below the historical recorded average. The plan does not provide details on the assumptions underlying the reduction of these costs.
- It is worth mentioning an accelerated increase in services performed by third parties (probably subcontractors) that reach double values as compared to 2017. In other words, part of the revenue and the profitability margin will be transferred to them.

3. Operational result (EBITDA)

As the revenue growth rate exceeds that of expenses, the operational result records an average growth rate of 21.7%. The pace can be considered optimistic (see chart below). Optimistic also appears to be the 2018 EBITDA when, after 9 months, the subsidiary recorded 1.21 million Lei, while the reorganisation / recovery plan provides an EBITDA of 2.86 million Lei in 2018.



4. Result of the exercise

The subsidiary has been recording losses since 2015. The cumulated loss to date (September 2018) is of 23.55 million Lei. Operational profitability (EBITDA) obtained is marginal and it

does not cover the amortisement and financial expenses. Thus the subsidiary has been recording annually losses beginning with 2015.

In this respect the subsidiary provides major risk from the perspective of any financier, since losses undermine the company's equities beyond the impact on cash flows.

Current capital

The current capital is a measure of a company's operational efficiency and financial discipline in the short run.

1. Liabilities

Liabilities (market credit) grow 3.5 times compared to 2017, but 2017-2023 sales grow only 1.6 times. The consequence of such approach will lead to additional finance needs. Therefore if in 2017 the client credit's turnover was 72 days, in 2023 it reaches to 161 days. Such increase in the number of days will put pressure on the current capital and the finance need.

2. Inventories

Inventories recorded decrease, which will diminish the pressure on the finance need. Consequently, if in 2017 it was 71 days and will go on decreasing to 31 days in 2023. Actually inventories decrease 2.4 million Lei, but it remains to be seen whether they will be capitalised by means of: practical application, return to supplier or depreciation.

3. Supplier credit

The reorganisation / recovery plan proposes higher pressure on suppliers, meaning they will grow from 4.6 million Lei in 2017 to 14.2 million Lei in 2023. In operational terms the turnover changes from 25 days to 49 days in 2023.

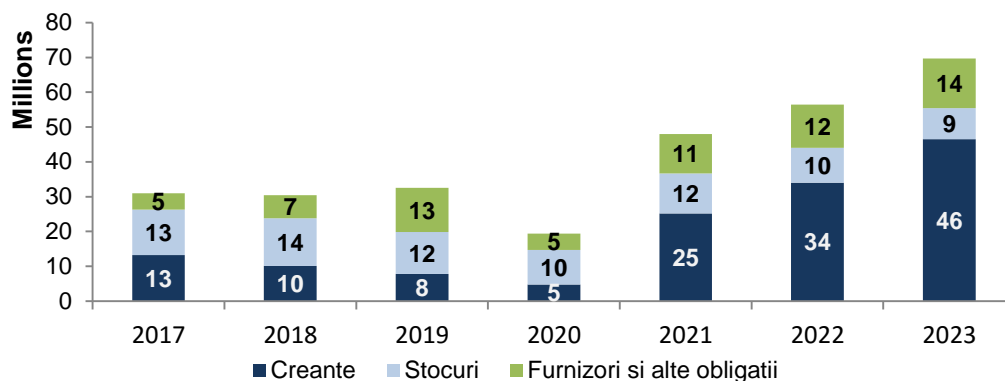
Conclusion:

The current capital needs resizing, since the submitted numbers suggest higher need of cash as necessary to finance the current capital, not necessarily to increase activities (in general the turnover growth entails higher finance need).

In 2018 – 2023 numbers show a cash need of 29 million Lei to finance the current capital.

		2015	2016	2017	2018	2019	2020	2021	2022	2023
Durata creante	zile	39	93	72	48	21	20	93	123	161
Durata stocuri	zile	58	65	71	66	32	42	43	36	31
Stocuri (avansuri pentru proiecte investitii)	zile	0	16	37	35	0	0	11	16	16
Durata furnizori	zile	46	31	25	32	34	20	42	45	49
Avansuri primite proiecte investitii	zile	0	60	90	72	0	0	15	18	17
Alte datorii personal + taxe	zile	20	24	22	18	10	16	14	14	13
Viteza de rotatie a capitalului de lucru	zile	31	59	42	27	9	26	76	99	128

Such finance need is determined by the forecasts of liabilities. In operational numbers the current capital turnover will increase from 42 days, passing by a minimum of 9 days in 2019 but reaching to 128 days in 2023. In other words it will register great dynamics we have no explanation for.



Operational cash flow

The operational cash flow show SMART SA's capacity to generate cash to sustain its basic activities.

The projections of the Reorganisation / recovery plan proves in 2018 – 2023 SMART SA will generate operational profit (EBITDA) of 65.8 million Lei, while the current capital will 'swallow' about 29.2 million Lei. Thus the cash flow generated from operational activities in 2018–2023 will be about 36.6 million Lei (positive).

	2018	2019	2020	2021	2022	2023
EBITDA	2,86	8,39	8,65	15,42	15,32	15,22
IMPOZIT PE PROFIT	0,00	0,00	0,00	0,00	0,00	0,00
VARIATIA NETA CAPITALULUI DE LUCRU	2,16	2,30	-2,90	-14,33	-6,81	-9,59
FLUX DIN ACTIVITATEA OPERATIONALA	5,02	10,70	5,75	1,08	8,51	5,63

In other words the subsidiary estimates to generate operational profitability of about 65.8 million Lei, but the operational cash flow will be impacted by the 29.2 million Lei increase in the finance need for the current capital.

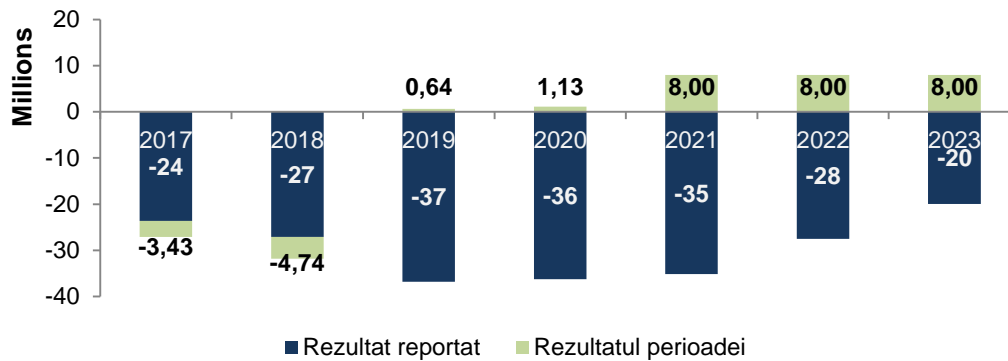
The Reorganisation / recovery plan takes into account repaying fully the credit facility from ING in 2018 and 2019 by capital increase amounting to 27 million Lei (22 million Lei to close the facility + 5 million Lei for investment expenses). The sum of 22 million Lei is near the value of the loss the subsidiary recorded from 2015 to September 2018, amounting to 23.6 million Lei.

An analysis using financial projections (deemed as optimistic) with 4.7% p.a. interest rate (current interest terms of this credit) proves that without a capital increase SMART will be able to repay the existing debt plus associated interest rates in 2023 (five years).

Equities

On 1 January 2018 the subsidiary recorded negative retained earnings of 27.1 million Lei (loss). The plan provides increase of losses in 2018 so that cumulated they will be 36.8 million Lei (in 2019). Subsequently such loss will be recovered from the profit estimated to be generated in 2019- 2023.

Profits generated by SMART SA according to plan will not however lead to full recovery of losses but will only diminish them to 12 million Lei.



Conclusions

The reorganisation / recovery plan proposes a reversal of the subsidiary's losses and obtaining profit starting as early as 2019. The basic assumptions are built on a turnover increase from maintenance revenues over the current 3 year-maintenance contract with the Company (January 1, 2018 – December 31, 2020), on completing the Company's investment contracts until 2019, contracting new investment projects with the Company, and doubling the turnover with other clients.

From the Company's perspective, the stage of the three investment projects undergoing with SMART is as follows:

- Dumbrava project - the commissioning term of June 2019 is 18.0% achieved;
- Arefu project - the commissioning term of November 2019 has been achieved 0.4%;
- Raureni project - the commissioning term of December 2018 has been achieved 2.5%;

Regarding the risks identified in the Reorganisation / Recovery Plan, it does not prove the sustainability of obtaining the proposed revenues, and historical figures show the opposite (revenues are decreasing). The plan also forecasts an increase in operational expenses, but at a slower pace than the turnover increase, which will lead to profitability increase, obviously if the proposed sales plan is achieved.

Cash flows from operational activities will be positive, but require a subsequent resizing / optimisation as they fluctuate much (the Plan does not provide explanations or working hypotheses based on which the current capital has been dimensioned).

The plan also proposes to extend the credit facility by 2019 when it is to be fully repaid, following a capital increase of 27 million Lei.

In terms of historical results, the subsidiary has a high financial risk, at least because of steadily decreasing revenues and cumulative historical losses. Consequently, SMART SA subsidiary is not credit worthy at the time of this analysis. Also studying the financial projections which we deem optimistic, it appears that without a capital increase SMART SA subsidiary will not be able to repay the financial debt from its own sources earlier than 2023.

As far as the financial analysis is concerned, if the Company's Shareholders' General Assembly approves the issuance of a Corporate Guarantee Letter (CGL), the following prerequisites should be cumulatively met:

- Necessary insurance measures are required by constituting real estate and chattel mortgages on SMART SA assets prior to the issuance of the CGL.

- The Company will acquire the right to monthly / quarterly monitor the subsidiary's performance in relation to the reorganisation / recovery plan;
- The Company will establish a risk and expense provision impacting the Company's financial result. The provision's estimate will be based on a risk analysis;
- SMART SA will commit to return any amounts paid by the Company as a result of the guaranty letter execution according to a repayment schedule and while also assuming a level of financing costs similar to the level paid by the Company for its own financing facilities.

Also from a financial perspective, if the Company's Shareholders' General Assembly approves SMART SA's capital increase, we have the following specifications:

- In case of CGL issuance prior to the share capital increase, if SMART SA repays the credit with the money from the share capital contribution, the CGL is no longer valid and chattel mortgages established in favour of the Company disappear;
- The company increases its contributions to the subsidiary's share capital (if the other shareholder does not want to contribute to such increase), respectively it maintains its participation if the other shareholder contributes to the capital increase with about 30% x 27 million Lei = 8.1 million Lei;
- In financial terms the Company's cash accounts will be diminished by the capital increase amount. As counterpart the Company will increase its holdings in subsidiaries.

III. Considerations with respect to the Reorganisation / recovery plan of the Maintenance Service Company for the Transmission Grid SMART SA in terms of RET maintenance

The proposal to reorganise SMART SA subsidiaries should have SLA-s (Service Level Agreements) providing the Company required level of maintenance activities.

The restructuring of SMART SA needs to take into account the Company's future maintenance policy, either as a distinct reliable efficient company or integrated in the Company.

Issues still outstanding now with respect to minor maintenance:

- Extending maintenance activities to the equipment installed under refurbishment (SF6 breakers, GIS/HIS bays etc.);
- Personnel training, procuring apparatuses and providing the logistics required for maintenance operations, in correlation with the refurbishment schedule and types of equipment procured;
- Introducing wide scale use of live work into Company installations.

For the time being there is no solutions to organise activities by projects nor any proposals in this respect, a reorganisation with 3 subsidiaries leading to new cooperation issues between 3 SMART SA entities and 8 Company branches.

IV. In juridical terms, the financial analysis of the Reorganisation / recovery Plan of SMART SA provides three conclusions of direct impact over the existing and future juridical relations between the Company and SMART SA:

1. Despite the measures meant to increase efficiency included in the Plan, in 2019 SMART SA has no capacity to cover the already assumed pay commitments from its own sources and loans from third parties, unless a share capital increase of at least 27 million Lei is applied;
2. The revenues of SMART SA estimated for the following years are significantly higher than what results by working with their historical trend, with a considerable risk they cannot be achieved and a direct consequence of SMART SA requiring additional financing even from 2019, which is much above the quantum of 27 million Lei provided in the plan;
3. The level of actual additional guarantees (mainly real estate actually used in operational activities in the country) that SMART SA can bring to support getting reimbursable financing (including guarantee also for drawing reimbursement from a guarantee letter possible issued by the Company) is not enough and constitutes mainly of real estate that can be transacted on a market of very little cash, so in case of enforcement the guaranteed value can be recovered in a very long time, which will probably block SMART SA's operational activities after completion;
4. Any contrary change in the achievement of financial indicators proposed in the Plan will immediately determine a significant risk for SMART SA to be incapable to pay, under which circumstances it is unavoidable to initiate insolvency procedure and consequently impact greatly the interests of all entities that financed SMART SA (by any form) before the procedure.

For such reasons, **any kind of reimbursable financial support (loan, issuance of guarantee letter) that might be granted by the Company does not observe the exigencies of good financial management**, as provided in article 5 para (1) of OUG 119/1999 on internal control and preventive financial audit: "*Persons managing public funds or the public patrimony are obliged to provide good financial management by providing the legality, regularity, economy, effectiveness and efficiency when using public funds and administrating the public patrimony*".

The Company's granting a financial support in quantum of at least 27 million Lei to SMART SA (regardless of its juridical form, for instance issuing guarantee letter, loan, capital growth) is the competence of AGA Transelectrica, no formal commitment in this respect can be made by the Company's executive team before the Company shareholders have approved such operation.

In case for reasons of protecting the National Power System the decision is taken it is opportune to provide financial support to SMART SA by involving Company inventories, the **only legal form of support is that of capital increase**, with quantum sufficient to cover not only the historical losses of SMART SA, but also future operational losses resulting either from SMART SA's incapacity to reduce quickly enough operational expenses or from unachieved forecasted revenues (owing to either the failure to draw in the forecasted number of new clients or to the occurrence of significant delays in completing the work executed under existing contracts). In case a decision is taken to increase the capital, if one of SMART SA shareholders does not fully subscribe the growth quota its participation will be diluted accordingly when the increase is done.

Also, **approving the capital increase should be under condition for SMART SA to remake the Reorganisation / recovery Plan towards reducing estimated revenues to the result of historical trends and to promote additional measures to reduce operational expenses, so as they no longer are lower than the changed revenues.** In case the insolvency risk persists, recommendations are to provide any form of financial support only after institution of insolvency proceedings **in which case such financing can benefit of the additional legal protection the law provides to finance given during the procedure, with priority privileged recovery of funds, to the detriment of any other creditors with liabilities recorded before the procedure.**

In terms of the prospective calendar of such a decision, the main stages are as follows:

1. T0 – convocation of the Company AGA in order to approve the capital increase of subsidiary SMART SA;
2. T0 + 5 – SMART will remake the Reorganisation / recovery Plan and add the support materials for the reunion of the Company's AGA with the new form assumed by the executive team of SMART SA;
3. T0 + 30 days – the Company's AGA approves the capital increase of SMART SA;
4. T0 + 30 days – convocation of AGA SMART SA to initiate the capital increase procedure;
5. T0 + 60 days – approval of capital increase by AGA SMART SA;
6. T0 + 90 days – completing the subscription period associated to the capital increase;
7. T0 + 90 days – convocation of AGA SMART SA with a view to approve the amended articles of association in consequence of the capital increase;
8. T0 + 120 days – AGA SMART SA approves the amended articles of association;
9. T0 + 120 days – carrying out the registration formalities with the Trade Register and all necessary administrative measures;

V. In accordance with article 14 para (3) let a) & b) from the Articles of Association in force of the Company, we submit to the Shareholders' General Extraordinary Assembly's approval the following:

- (i) **The Company will issue a letter of corporative guarantee in favour of ING Bank NV Amsterdam for one year, amounting to 27,392,412.79 Lei, to secure a loan contract where the Maintenance Service Company for the Transmission Grid Smart SA, Company subsidiary, is debtor and ING Bank NV Amsterdam is creditor, provided it constitutes chattels mortgage for the Company;**
- (ii) **The Company will participate to increase the share capital of the Maintenance Service Company for the Transmission Grid Smart SA, Company subsidiary, with maximum cash contribution of 27,000,000 Lei.**

DIRECTORATE,

<i>Chairman</i>	<i>Member</i>	<i>Member</i>	<i>Member</i>
Adrian-Constantin RUSU	Andreea Georgiana FLOREA	Adrian-Mircea TEODORESCU	Viorel VASIU

