

NOTE

regarding approval by the Shareholders' General Extraordinary Assembly for the participation of the National Power Grid Company Transelectrica SA to increasing the share capital of the Company for Maintenance Services to the Electricity Transmission Grid SMART SA for this subsidiary's economic-financial restructuring

I. Generalities and context

The Company for Maintenance Services to the Electricity Transmission Grid SMART SA (**hereinafter called SMART SA**) has the following shareholders:

- The National Power Grid Company Transelectrica SA (**herein after called "Company"**) holding 70.006% of its share capital;
- The Romanian State through the Ministry of Economy, holding 29.994% of the share capital;

On 29.11.2018 SMART SA transmitted to shareholders letter 8130/29.11.2018: *Reorganisation / recovery plan of the Company for Maintenance Services to the Electricity Transmission Grid SMART SA and Decision 43/28.11.2018* of the Board of Administration of SMART SA, according to which "the Board of Administration approves the Reorganisation / recovery plan of the Company for Maintenance Services to the Electricity Transmission Grid SMART SA, annexed to this decision and asks the director general to send this Reorganisation / recovery Plan to the two shareholders of SMART SA". The fore-mentioned Reorganisation / recovery plan included two measures requiring statutory approvals in the Company's Shareholders' general assembly:

- a) Issuing a Company corporative guarantee letter to ING Bank NV Amsterdam for 1 year in order to secure the Loan Contract 08164/14.04.2008 (where SMART SA is debtor and ING Bank NV Amsterdam is creditor);
- b) Increasing the share capital of SMART SA with contribution of 27 million Lei;

On 21.01.2019 upon Directorate convocation according to applicable legal and statutory terms the Company's information and position with respect to the documents received from SMART SA have been placed at the shareholders' disposal by means of Notice 54424/17.12.2018, the Company's Shareholders' General Extraordinary Assembly did not approve any of the two measures, items 1 and 2 of Decision 2 /21.01.2019:

1. As regards *item 1 in the agenda, with the 'against' vote of shareholders representing 86.30494% of the total number of validly cast votes, no approval is granted for the Company's issuance of a corporative guarantee letter in favour of ING Bank NV Amsterdam for one year and the amount of 27,392,412.79 Lei to warrant a loan contract where the Company for Maintenance Services to the Electricity Transmission Grid Smart SA, Company*

subsidiary, is debtor and ING Bank NV Amsterdam is creditor, provided real estate guarantees are constituted for the Company to fully cover the corporative guarantee letter.

2. As regards item 2 in the agenda, with the ‘against’ vote of shareholders representing 94.55657% of the total number of validly cast votes, approval is not granted for the Company’s participation to increasing the share capital of the Company for Maintenance Services to the Electricity Transmission Grid Smart SA, Company subsidiary, with cash contribution of maximum 27,000,000 Lei.

In terms of historical results SMART SA provides high financial risk, at least as regards permanently decreasing revenues and cumulated historical losses. Consequently subsidiary SMART SA is not credit-worthy for the time being and, **without a capital injection**, even by taking into account the financial projections from the Plan sent to shareholders with letter 8130/29.11.2018, which we deem optimistic, **there is a high risk the subsidiary cannot reimburse the financial debt from its own sources earlier than 2023.**

II. Economic-financial analysis pertaining to economic-financial restructuring in view of recovering SMART SA

Reviewing the information the Company has had to date, namely:

- The historical financial statements of SMART SA sent to the National Power Grid Company Transelectrica SA (of which the 31.12.2018 ones are preliminary & non-audited),
- The information included in the *Reorganisation / recovery plan for the Company of Maintenance Services to the Electricity Transmission Grid SMART SA* transmitted to shareholders with letter 8130/29.11.2018,

The Company proceeded to normalise revenues, but equally the expenses under a conservatory scenario deemed as more realistic with a view to determine the financial performance but the funding needs as well in the fore-mentioned period. Thus adjustments have been made to the *Reorganisation / recovery plan for the Company of Maintenance Services to the Electricity Transmission Grid SMART SA* as follows:

- Revenues, in terms of maintenance incomes, were adjusted to the 2018 level;
- Revenues from investment contracts with the Company are not feasible taking into account their completion degree to date, consequently they have not been taken into consideration;
- Other revenues were limited to the level of 2018 (about 6 million Lei);
- The salary fund is maintained constant during the entire forecast period, without limiting the restructuring items within the salary envelope;
- Other operational expenses have been adjusted to the subsidiary’s historical level;
- No interest rate expenses were taken into account under the assumption the financial line contracted with ING Bank will be closed;

Taking into account the above, the Company review is leading to the following conclusions:

- SMART SA, in the absence of a realist economic-financial restructuring plan, will further generate losses of about 38 million Lei (2019-2023);

- The financial needs of 2019-2023 amount to 29 mill Lei and in the short run (2019 – 2020) such needs amount to 18 mill Lei. The sum of 18 mill Lei is meant to close the financing facility contracted with ING Bank NV Amsterdam (about 30 mill Lei), with about 7.6 million Lei exposure to date, which will be added interest rates and other costs, as well as payments to outstanding suppliers and 10.4 million Lei required for working capital;
- One can also expect in the next 3 months to see the subsidiary accruing liabilities to the current suppliers, since activities are seasonal and during this interval revenues will be 4 million Lei below expenses;
- The Bank Guarantee Letter amounting to 4.7 million Lei (component part of the credit facility in sum of 30 mill Lei contracted by SMART SA) issued by ING Bank NV Amsterdam in favour of the Company (performance bond for Dumbrava investment project) might be raised for discussions with the bank to secure it by real estate mortgage from the patrimonial stocks of SMART SA. Mention should be made the existing financial facility is currently secured by the subsidiary with 2.7 million Lei real estate guarantee. The 2 mill Lei difference might be secured by SMART SA with real estate mortgage on non-current assets;

The steps above can be taken if a realist economic-financial restructuring plan with actual implementation likelihood is assumed responsibly by subsidiary shareholders and its executive and administrative managerial teams.

III. Statutory competences to increase the share capital of the Company for Maintenance Services to the Electricity Transmission Grid SMART SA with respect to the economic-financial restructuring of this subsidiary

In terms of competences attributed to the Company's and SMART SA's statutory bodies:

- a) In accordance with article 12 para (1) let k) of the Articles of association of SMART SA, it follows the competence pertains to the Shareholders' general assembly of SMART SA *"to approve the proposals for overall development, upgrade, economic-financial restructuring strategy of SMART, as well as to contract long term bank loans"*, therefore in this respect the economic-financial restructuring plan of SMART SA should be approved by the Shareholders' general assembly of SMART SA;
- b) Taking into account the economic-financial restructuring in view of SMART SA's recovery requires an increase of the share capital, namely the additional participation of the National Power Grid Company Transelectrica SA to the subsidiary's capital, **the preliminary approval of the Shareholders' general extraordinary assembly is required according to article 14 para (3) let b) of the Articles of Association.**

The applicable Articles of association of the Company provides in article 14 para (3) as follows:

"(3) Besides the competences and attributions mentioned in para (2) above or in the law, the shareholders' general extraordinary assembly decides on the following issues:
 (...) b) Constituting or participating in the constitution of entities with distinct legal personality, with or without patrimonial purposes, and participating to the share capital of other companies;" (...).

IV. Proposal

In accordance with article 14 para (3) let b) of the Articles of Association in force of the Company, we submit to the approval of the Shareholders' General Extraordinary Assembly the Company participation to increasing the share capital of the Company for Maintenance Services to the Electricity Transmission Grid Smart SA, subsidiary of the National Power Grid Company Transelectrica SA, with cash contribution of maximum 18,000,000 Lei.

DIRECTORATE,

<i>Chairman</i>	<i>Member</i>	<i>Member</i>	<i>Member</i>	<i>Member</i>
Marius-Danut CARASOL	Claudia-Gina ANASTASE	Andreea- Georgiana FLOREA	Constantin SARAGEA	Adrian SAVU
UEFA, Director Ana Iuliana DINU		DGCRIR, Director Bogdan TONCESCU	DJC, Director Radu CERNOV	
Florin Stanciu Manager, DSFTM		Dan Lazarescu, Manager, DGC	Alina Elena Teodoru, Manager, DCSJ	