

To the:

Shareholders' General Assembly

**Report of the Audit Committee
from the Supervisory Board of CNTEE Transelectrica SA (TEL) for 2018 regarding the internal control system and
significant Company risk management system**

The essential Supervisory Board (SB) role is to control the manner in which the Directorate leads the Company, and to verify the activities performed on the Company's behalf and account. In correlation with such role the Board is entitled and has the task to establish control, verification and reporting modes it considers necessary for role performance and reports accordingly to the Shareholders' general assembly (AGA). The SB conducts activity in accordance with legal provisions in this domain.

The Audit Committee from the Supervisory Board (SB) of CNTEE Transelectrica SA, constituted according to the Articles of Association of CNTEE Transelectrica SA carried out activities in accordance with legal provisions in the domain.

Audit Committee members are nominated from among SB members (who in their turn are appointed by AGA). The membership on 31.12.2018 was as follows: Adrian MITROI, Gheorghe OLTEANU, Alin-Sorin MITRICA, Constantin DUMITRU, Liviu ILASI, Ion CIUCULETE and Fanel MIHALCEA.

Throughout 2018 the Audit Committee having gathered for 4 plenary meetings, analysed the financial and management reporting process, as well as the financial plan and the elaboration of annual stand-alone and consolidated financial statements, which means the data and information included in the following documents were reviewed and verified:

- Stand-alone Financial Statements, elaborated on 31.12.2017;
- Consolidated Financial Statements, elaborated on 31.12.2017;
- Annual report on the stand-alone Financial Statements of Transelectrica for 2017;
- Annual report on the Consolidated Financial Statements of Transelectrica for 2017.
- Simplified Interim Stand-alone Financial Statements as of and for the six months' period ended on 30 June 2018;
- Stand-alone Financial Statements on 30.09.2018;
- Report with respect to Public Internal Audit activities of 2018 perform in TEL and in its subsidiaries;

During the meetings the Audit Committee members of the SB took into account the following documents:

- Directorate proposal for the net profit distribution on 31 December 2017;
- Information about submitting to the Shareholders' General Assembly's (AGA) approval the coverage of the retained result loss coming from corrected accounting errors related to the registration of additional payment liabilities, according to ANAF – DGAMC taxation decision, with the surplus achieved of revaluation reserves, non-taxable when the destination is changed;

- Information about submitting to AGA's approval the constitution of reserves related to revenues achieved from the allocation of transmission capacity on interconnection lines from the surplus achieved of revaluation reserves, non-taxable when the destination is changed;
- Information about submitting to AGA's approval the coverage of the loss from actuarial losses, with the surplus achieved from revaluation reserves, non-taxable when the destination is changed;
- Execution of the Revenue and Expense Budget on 30 June 2018;
- Activity report elaborated by the Directorate for the third quarter of 2018;
- Plan of audit actions in 2018;
- Audit reports elaborated during and for 2018.

At the same time in 2018 the Audit Committee from the Supervisory Board participated in the elaboration of the:

- Audit Committee Report about the internal control system and significant TEL risks management system, elaborated according to the provisions of the Corporate Governance Code of the Bucharest Stock Exchange (AGOA material for the 30.04.2018 reunion);
- Half-yearly report on supervisory activities, elaborated according to OUG 109/2011, submitted to shareholders at the ordinary assembly of 27.09.2018;
- Based on the information from the Directorate, the Audit Committee recommended the Supervisory Board the proposal to have AGA appoint company BDO Audit SRL as financial auditor of CNTEE Transelectrica SA. Thus in accordance with article 111, para (2), let. b[^]1) of L-31/1990 on companies, republished, with later amendments and additions, of article 14 para (1), let. d) from the Articles of Association of CNTEE Transelectrica SA, the Supervisory Board by Note 54222/14.12.2018 proposes AGA to appoint BDO Audit SRL as financial auditor of TEL for 3 years.

In addition to the previous presentations we now submit the shareholders a brief information about the internal control systems and the significant Company risks management system, detailed as follows:

1. Report about the 2018 activities performed by the Public Internal Audit (API) structure of CNTEE Transelectrica SA and its subsidiaries

The public internal audit activity performed by the API structure of CNTEE Transelectrica SA during 2018 took place while observing the minimum reporting requirements requested by UCAAPI (Central Harmonising Unit for Public Internal Audit) under the standard format of the annual report for 2018.

1.1. Regulations and principles governing API activities

- ✚ Law 672/2002 on public internal audit, with later additions;
- ✚ General norms regarding the exercise of public internal audit activities (HG 1086/2013);

- ✦ Code of ethical conduct for internal auditors meant to set up the ethical framework necessary for the internal auditor profession;
- ✦ Internal audit charter establishing the position of the internal audit structure within the public entity and defining the activity domain of public internal audit, the internal auditors' rights and obligations;
- ✦ Organisational independence within the Company, so as not to be subject to interference of any kind, beginning with the establishment of audit targets, the actual performance of work specific to the mission and up to communicating its results;
- ✦ Individual objectivity, competence, professional conscience and permanent professional training of auditors;
- ✦ Integrity, the obligation to keep the internal auditors' confidentiality and political neutrality;

1.2. Role of API

- ✦ Providing good risk management, control and governance, contributing to obtaining plusvalue and providing recommendations to improve them;
- ✦ Assisting the Company's top management to achieve objectives and providing objective detailed assessments on the lawfulness, regularity, economicalness, efficiency and effectiveness of activities and operations performed;

1.3. Planning the public internal audit activities

Taking into account that risks associated to activities are generated by the economic and social environment where business is performed, there is a need to reevaluate risks periodically in order to follow their dynamics. The annual plan was set up based on the "Multiannual plan of public internal audit, 2017 - 2021", using the associated risk analysis and the requests of Directorate and Supervisory Board members. Also, to make a thorough risk analysis but to reduce as well the subjective degree of risk assessment we deem it necessary to use well-defined risk analysis criteria and to explain the actual execution of risk analysis, while also providing risk ranking.

The risk analysis criteria used in the annual and multiannual plans are as follows:

- ✦ Risk occurrence likelihood;
- ✦ Seriousness of consequences (impact level);

1.4. Operation of the Public Internal Audit

- ❖ **In CNTEE Transelectrica SA** public internal audit activities have got their own structure ever since 2004. Audit is performed according to one's own norms endorsed by the higher hierarchical body (Government's Secretariat General) under no. 1911/11.06.2014.
- ❖ **In the 5 subsidiaries**, public internal audit activities are organised and performed into four of them (OPCOM SA, SMART SA, TELETRANS SA and FORMENERG SA). Subsidiary ICEMENERG SERVICE SA is under bankruptcy procedure.

❖ In CNTEE Transelectrica SA

The annual plan was established according to the approved “Multiannual public internal audit plan of CNTEE Transelectrica SA” and to risk analysis, taking into account certain priorities arising after previous audit missions or upon requests from Directorate and Supervisory Board members.

In 2018 there were 12 public internal audit missions in CNTEE Transelectrica SA, of which one mission was ad-hoc. They targetted the following domains: budget; finance-accounting; public procurement; SCM/SCIM; specific functions. All planned missions were conducted in due time and the Annual plan was achieved 100%.

In 2018 a number of 216 recommendations were expressed, of which:

- ✚ 165 recommendations implemented on the set date;
- ✚ 11 recommendations partially implemented;
- ✚ 40 unimplemented recommendations, which will be supervised until their implementation;

The public internal audit structure of CNTEE Transelectrica SA elaborated the Quality insurance and improvement plan, which was last updated on 11.01.2018. Public internal audit by its insurance and counselling missions adds value to activities and supports management to maintain effective internal control and to achieve the established objectives.

❖ In the subsidiaries of CNTEE Transelectrica SA

The annual activity reports elaborated by 4 functional internal audit structures provide activity planning processes with the following particular features:

- ✚ In SMART the 2018 Plan of internal audit missions was not elaborated and approved;
- ✚ In OPCOM the 2018 Annual internal audit plan was approved by the entity leader in December 2017;
- ✚ For FORMENERG there is no information;
- ✚ In TELETRANS the 2018 Public internal audit plan was approved in October 2017;

1.4.1. Objectiveness of internal auditors

❖ In CNTEE Transelectrica SA

In 2018 the Public internal audit structure was not involved in performing auditable activities.

At the same time in 2018 all internal auditors filled in the „Independence statement” for each public internal audit mission they participated into. No issues were ascertained after filling in such statements.

❖ In the subsidiaries of CNTEE Transelectrica SA

The annual activity reports elaborated by 4 functional public internal audit structures provided the following information:

With respect to the internal auditors’ involvement in performing auditable activities: in 2018 in all 4 entities the internal auditors were not involved in performing auditable activities.

With respect to filling in the independence statement: in 2018 in all 4 entities the internal auditors filled in the independence statements;

1.4.2. Providing the methodologic and procedural framework

The methodologic and procedural framework related to public internal audit activities refers to aspects that can provide good development of such activities by means of applicable methodologies and procedures, taking also into account the application and observance of the internal auditor's code of ethical conduct.

As far as such aspects are concerned, the public internal audit activity was regulated beginning with 2003, besides the usual primary legislation by OMFP 38/2003 as well approving the General norms for the performance of public internal audit activities.

In 2013 when the Public internal audit law has been amended and republished HG 1.086/2013 was issued as well, approving the General norms for the performance of public internal audit activities. It brings a series of amendments and improvements to the old version of general norms. Both general norm versions provided elaborating one's own public internal audit norms.

As regards issuing procedures for activities of the public internal audit structur, they are also subject to issuing system or operational procedures, as the case may be. The concept of procedure is used in this report has the meaning as defined in OSGG 400/2015, with later amendments and additions.

Taking this into account public internal audit structures should analyse and decide how many of the activities performed require procedures (namely issuing written procedure for such activity). In this context the procedure issuance degree can vary from one entity to another, depending on the professional consideration applied. Also in case of procedure-related activities one should establish the procedure issuance degree. Naturally the target is 100%, aiming at reaching it as close as possible.

1.4.3. Issuing one's own written norms and procedures specific to public internal audit activities

❖ In CNTEE Transelectrica SA:

- ✓ One's own norms were elaborated and endorsed by the hierarchically higher body (OIS) by endorsement 20194/16.06.2014;
- ✓ Internal procedure code TEL-15.02, which is updated every time there is need. All the stages completed in the performance of public internal audit missions, from their planning up to supervision and reporting the stage of recommendation implementation, are included in the content of this procedure.

In case of 1 activity identified to be related to procedure 1 written procedure was elaborated, which means 100% degree of procedure issuance.

❖ In the subsidiaries of CNTEE Transelectrica SA



- ✓ In the total 4 subordinated units (subsidiaries) that have established the public internal audit function by their own structure, the utilisation of own norms is as follows: they have received the agreement of CNTEE Transelectrica SA to issue their own norms, which were endorsed by CNTEE Transelectrica SA.
- ✓ In the subsidiaries of CNTEE Transelectrica SA a total number of 10 activities were identified (7 for FORMENERG, which actually are public internal audit subactivities, namely elaborating the multiannual public internal audit plan, drawing up the annual public internal audit plan, conducting public internal audit missions of insurance – regularity /conformity, conducting counselling public internal audit missions, carrying out ad-hoc public internal audit missions, professional training of internal auditors, elaborating the annual report of public internal audit activities and 1 activity in each of the other subsidiaries).

1.5. Quality insurance and improvement for public internal audit activities

1.5.1. Elaborating and updating the Quality Insurance and Improvement Programme (PAIC)

In accordance with the provisions of item 2.3.7 from annex 1 to HG 1086/2013, a quality insurance and improvement programme (PAIC) is elaborated by the public internal audit structure for all public internal audit aspects, which should enable continuous control of its effectiveness.

PAIC related to public internal audit activities guarantee public internal audit activities are carried out in accordance with the norms, guidelines and the Ethical conduct code of internal auditors and it should contribute to improving the activities of the public internal audit structure.

PAIC helps expressing conclusions with respect to the quality of internal audit activities and leads to making recommendations to implement proper improvement of such activities. This process enables assessing the:

- Compliance with the applicable legal base;
- Internal audit's contribution to governance, risk management and Company control processes;
- Full coverage of auditable range;
- Risks impacting the internal audit's operation,

❖ In CNTEE Transelectrica SA

- PAIC 31106/16.09.2014 was elaborated. The issued PAIC is periodically updated. This document was last updated on 11.01.2018.

❖ In the subsidiaries of CNTEE Transelectrica SA

- In 2018 the annual activity reports elaborated by 4 functional internal audit structures provided the following information:
 - 3 entities have updated the PAIC;
 - 1 entity, namely OPCOM, has elaborated the PAIC.

1.5.2. External valuation



❖ **In CNTEE Transelectrica SA**

In 2018 the Public internal audit structure was not assessed by Romania's Court of Audit, by the hierarchically higher body (OIS) or by other entities.

❖ **In the subsidiaries of CNTEE Transelectrica SA**

In the subordinated entities there were annual activity reports elaborated by 4 functional internal audit structures, which showed that in 2018:

- 1 entity (OPCOM) was evaluated by OIS;
- 3 entities were not submitted to evaluation.

In the last four years all 4 entities were evaluated by the hierarchically higher body.

1.6. Public internal audit activities performed in the reported year

As far as the public internal audit function is concerned, planning is done for multiannual intervals of 3 years, but also annually. Resources are calculated and distributed only for the shorter timeframe (1 year).

❖ **In CNTEE Transelectrica SA**

In 2017 – 2021 the Multiannual public internal audit plan 1976/17.01.2017 of CNTEE Transelectrica SA was elaborated and approved.

In accordance with the provisions of Law 672/2002 republished, with later amendments and additions, public internal audit is exercised to all activities performed in an entity, including to all activities of subordinated entities. Consequently the internal auditors of API performed public internal audit activities in the organizational structures of the Company's Executive branch, in the eight branches and subsidiaries where there is no internal audit structure. Audit to subsidiaries FORMENERG, OPCOM, SMART and TELETRANS is conducted by means of their own structure, then API personnel of CNTEE Transelectrica SA makes their evaluation.

Taking into account the very great number and diversity of activities carried out Company-wide, in comparison with the human resources of API structure and the available annual calendar for public internal audit missions, as well as the need to make new audit missions into subsidiaries, the multiannual plan was elaborated for 5 years. The plan is reviewed as necessary in order to make certain it further contains relevant updated information.

The yearly break-down of audited activities hierarchised organisational entities depending on their significance and contribution to reaching the main objectives of CNTEE Transelectrica SA. Each structure was audited by identifying and hierarchising activities according to detailed organisational and operational regulations and interviews with the managerial teams of such entities. Hierarchising took also into account risk analysis and assessment, as associated to each activity. These activities were divided by years in accordance with the International Audit Standards and good practice established in the domain, considering also a balanced distribution to the extent possible. Thus every year high risk activities will be predominantly audited but also those of medium and little risk.

Risk analysis criteria used in the annual and multiannual plans are as follows:

- Risk occurrence likelihood;

- Seriousness of consequences (impact level);

The annual plan was established according to the approved “Multiannual public internal audit plan of CNTEE Transelectrica SA” and to risk analysis, taking into account certain priorities arising after previous audit missions or upon requests from Directorate and Supervisory Board members.

The 2018 plan of public internal audit missions registered under no. 44331/14.12.2017 and approved by the Directorate included 12 missions, of which:

- 11 insurance missions (eight in transmission branches and three in the Company’s Executive branch);
- One assessment mission (in subsidiary OPCOM).

The plan was reviewed twice during the reported year as follows:

- Revision 1 under no. 28226/09.07.2018 after cancelling one insurance mission providing an ad-hoc audit mission instead;
- Revision 2 under no. 54433/19.12.2018 to detail the public internal audit missions on:

“Taking out of operation and capitalisation of fixed assets, declassification and dismantling material goods, other than fixed assets” into seven transmission branches.

❖ In the subsidiaries of CNTEE Transelectrica SA

In the 4 subordinated entities that elaborated an annual activity report of public internal audit, the annual and multiannual planning provides the following particular features:

- As regards elaborating one’s own risk analysis criteria:
 - 3 entities elaborated their own risk analysis criteria;
 - 1 entity (subsidiary OPCOM) did not elaborate its own risk analysis criteria but has used those defined in the „Own methodologic norms”.
- As regards elaborating an operational procedure for annual and multiannual planning:
 - 3 entities elaborated their own operational procedure;
 - 1 entity (subsidiary OPCOM) has not elaborated an operational procedure;
- As regards elaborating the annual and multiannual plan, it was achieved taking into account:
 - 1 entity took the structures into account;
 - 3 entities took the activities into account;

1.7. Conducting the public internal audit missions

1.7.1. Conducting insurance missions

❖ In CNTEE Transelectrica SA

In 2018 a number of 11 insurance missions was conducted (eight in transmission branches and three in the Company’s Executive branch); taking into account several domains can be approached in one insurance mission it was ascertained that:



- One insurance mission addressed the budget domain;
- Eight insurance missions approached the financial-accounting domain;
- Seven insurance missions addressed the public procurement domain;
- No insurance mission addressed the human resources domain;
- No insurance mission approached the IT domain;
- No insurance mission addressed the juridical domain;
- No insurance mission approached the domain of community funds;
- Nine insurance missions addressed the domain of entity specific functions;
- One insurance mission approached the SCM/SCIM domain;
- No insurance mission addressed other domains;

No irregularities were ascertained during the internal audit missions conducted in 2018.

❖ In the subsidiaries of CNTEE Transelectrica SA

In 2017 in the 4 subsidiaries (SMART, OPCOM, FORMENERG and TELETRANS) a number of 11 **insurance missions** were conducted. Taking into account several domains can be approached in one insurance mission it was ascertained that:

- No insurance mission addressed the budget domain;
- Two insurance missions approached the financial-accounting domain;
- No insurance mission addressed the public procurement domain;
- No insurance mission addressed the human resources domain;
- No insurance mission approached the IT domain;
- unei mission de asigurare s-a abordat domeniul juridic;
- No insurance mission approached the domain of community funds;
- One insurance mission addressed the domain of entity specific functions;
- No insurance mission approached the SCM/SCIM domain;
- No insurance mission addressed other domains;

No **irregularities** were ascertained during the internal audit missions conducted in the subsidiaries.

Internal auditors from subsidiaries verify the application of recommendations upon set terms, updating the Supervision form of applied recommendations in compliance with the informations of audited structures or by the verifications made.

1.8. Conclusions

❖ In CNTEE Transelectrica SA



Public intern audit by its activities adds value both by assessing the internal control system and analysing the risks of auditable activities, as well as by the recommendations included in the elaborated report and transmitted in view of achieving Company objectives. Such recommendations determined the structures to improve activities and the internal control system so that significant progress was noticed from one audit to another.

Monitoring activities are directed towards the plusvalue created by public internal audit while supporting the achievement of Company objectives.

The recommendations made during all public internal audit missions conducted in 2018 aimed at and led to:

- Knowing and better applying the legislation, procedures and instructions related to audited activities;
- Detecting and correcting deficiencies that can be penalized by external control bodies;
- Eliminating the negative aspects of audited activities with a view to diminish risk occurrence conditions;
- Improving the mode of operation regarding LW, ISCIR and metrologic projects/programmes scheduling and execution, elaboration and supervision of maintenance plans and execution & settlement of operation/maintenance contracts;
- Paying more attention to the implementation of applicable regulations regarding elaboration and supervision of investment plans, as well as execution of investment projects;
- Paying more attention to the implementation of applicable regulations regarding elaboration of the annual sector procurements (PAAS) and its correlation with the other branch plans/programmes, namely preparation and execution of procurements;
- Greater attention to the full implementation of applicable legal provisions regarding supervision and write-off of trade receivables and liabilities, to registering the fiscally deductible and non-deductible expenses, making collection and payment operations by the cash desk, granting and justifying advance payments;
- Improving the mode of operation regarding elaboration, approval and application of REB, keeping track of the Company's private stocks and the assets found in the state public domain;
- Greater attention to the implementation of applicable regulations regarding decommissioning and capitalising fixed assets, declassification and dismantling material assets, other than fixed assets;
- Enhancing communication in-between Company entities;
- Improving the internal control system related to the audited entities and activities;

❖ In the subsidiaries of CNTEE Transelectrica SA

The missions conducted into subsidiaries' public internal audit structures aimed at expressing recommendations in order to remove malfunctions and improve the activities of audited structures so that their efficiency and effectiveness can increase, which will finally contribute to reaching the company-established objectives.

Management awareness with respect to the need to consolidate public internal audit showed by the objection-free approval of internal audit reports of the missions performed in 2018.

1.9. Proposals to improve public internal audit activities

❖ In CNTEE Transelectrica SA

- Furthering the consolidation of internal auditor functions within CNTEE Transelectrica SA in view of improving transparency, efficient utilisation of funds and public heritage.
- Organising meetings or periodical discussions for internal auditors with the Company's management, of the sort clearing up certain issues and the top management's expectations with respect to public internal audit activities.
- Providing internal auditors with proper salary level, as befitting to the hierarchy of such position within the company.
- Renewing the computation technique (laptops) because the existing one is obsolete and worn out.
- Exchanges of experience with other public internal audit structures of the energy domain and with international organisations or auditors from European Union countries.
- Providing continuous uniform training at qualitative standards as necessary to obtain national certification for internal auditors;
- The need for permanent cooperation in methodologic terms and for guidance between the public internal audit structure of the **hierarchically higher level (Ministry of Economy)** and API of CNTEE Transelectrica SA.

❖ Proposals to improve public internal audit activities conducted in the subsidiaries of CNTEE Transelectrica SA

- Improving the internal audit activities targets the procedural framework and precum the development of permanent professional cooperation in methodologic terms and guidance between the subsidiaries' internal auditors **and the auditors from API structure of Transelectrica.**
- Maintaining proper professional training of internal auditors, which means participation to professional training courses provided by experts in the domain.

In 2018 the Audit Committee of the Supervisory Board received information about the la Audit missions plan for 2018 and all Audit Reports elaborated in 2018 were notified to it.

2. Risk management in 2018

2.1. Organisational framework of risk management



In accordance with applicable legislation: SGG Order 600/2018 approving the Code for internal managerial control of public entities, in 2018 the organisational and operational framework of CNTEE Transelectrica SA was enhanced as necessary to implement and develop the internal managerial control system. In this respect updates were brought into:

- ✚ The membership, attributions and responsibilities of the Risk Management Team of the Company (EMRC), by Directorate Decision 834/12.07.2018; the Risk Management and Control Group (GMCR) was set up within the Team; to provide efficient risk management at all Company levels, the leaders of the Company's organisational entities (divisions, departments, transmission branches) designated their own risk responsible person who is member in the Company's Risk Management Team (EMRC).
- ✚ The membership, attributions and responsibilities of the Monitoring Commission for the implementation of the Internal/Managerial Control System within the National Power Grid Company Transelectrica SA, by Directorate Decision 151/30.07.2018;
- ✚ The Organisation and Operation Regulation 41447/08.10.2018 of the Monitoring Commission for the internal/managerial control of the National Power Grid Company Transelectrica SA;
- ✚ The membership of the Monitoring Commission's Technical Secretariat for the implementation of the Internal/Managerial Control System (CM SCIM) within the National Power Grid Company Transelectrica SA, by Decision 1266/17.10.2018.

The Monitoring commission of internal/managerial control coordinates the update of general and specific objectives, of procedural activities, risk management, performance monitoring system, the state of procedures and the monitoring & reporting system, namely the information to the Company's Directorate.

Risks associated to objectives and/or activities are identified and assessed in each organisational entity of the Company (division, department, transmission branch), in accordance with the items from the Risk Registry; significant risks are centralised by the Critical Infrastructure Department, Risk Management into the Company-wide Risk Registry.

The monitoring commission analyses and prioritise the significant risks that might impact the achievement of Company objectives by establishing each year the risk profile and risk tolerance limit.

Using the Company-wide Risk Registry the Chairman of the Risk Management Team proposes the risk profile and the risk tolerance limit, which are analysed and endorsed at the Commission meeting and approved by the Company Directorate.

Once with the Risk Registry the leaders of the Company's organisational entities (divisions, departments, transmission branches) transmit also the control measures for significant risks; the Chairman of the Risk Management Team of the Company, member in the Technical Secretariat of the Monitoring Commission elaborates annually the Implementation plan of control measures for significant risks for the Company; the Monitoring commission reviews the Plan and the Company Directorate approves it.

In CNTEE Transelectrica SA risks that might have substantial impact over the achievement / fulfilment of Company objectives are managed in accordance with the operational procedures specific to activities and in accordance with the operational procedure TEL 10.00 Risk management. The Operational procedure TEL 10.00 Risk management aims at implementing a risk management process meant to facilitate the achievement of Company objectives under economic efficient effective conditions. At the same time continuous improvement is provided for the development of risk

management stages, namely identifying, assessing, determining the management strategy, monitoring the implementation of control measures and periodical reporting as follows:

- a) Risk identification in close connection with the activities associated to specific objectives, of which implementation can be impacted by risk occurrence; detecting the threats/vulnerabilities of current activities, which might lead to a failure in reaching the set objectives;
- b) Risk assessment by estimating the occurrence likelihood, the impact on activities meant to achieve objectives, in case they occur; risks hierarchisation and prioritisation depending on risk tolerance;
- c) Establishing the risk management strategy (risk response) by identifying the best risk treatment methods, control measures included; risk analysis and management depending on the approved risk tolerance limit;
- d) Monitoring the implementation of control measures and reviewing them depending on the effectiveness of results;
- e) Periodical reporting of risk conditions every time there is need or at least once a year, namely in case risks persist, depending on the occurrence of new risks, the efficiency of applied control measures, the revaluation of existing risks etc.

The procedure provides the personnel of CNTEE Transelectrica SA with a working instrument facilitating risk management in methodic efficient manner in order to achieve Company objectives. In this respect the procedures is used in order to elaborate each year the risk management documentation for those risks that might impact the activities of CNTEE Transelectrica SA, also describing the mode of establishment, implementation and monitoring of control measures meant to limit the possible threats and consequences in case risks occur. The procedure provides that each organisational entity is obliged to systematically analyse at least once a year the risks associated to its activities and to elaborate proper plans to mitigate the likely risk consequences; the managerial team of each organisational entity nominates a risk responsible person who provides annual elaboration of the following documentations: Risk Registry, Measure plan, Annual report, while also filling in the risk supervision forms every time he/she deems fit and elaborating the risk alert forms upon occurrence of some new risk.

In 2018 the main documents elaborated Company-wide about risk management activities were as follows:

- ✚ Risk Registry of CNTEE Transelectrica SA for 2018, document registered under no. 48166/21.12.2017;
- ✚ The action plan no. 1620/12.01.2018 of risk management activities for January 2018 – January 2019 and no. 27551/ 02.07.2018 for July 2018 – January 2019;
- ✚ Information no. 1622/12.01.2018 about the risk management process conducted in the Company in 2017, approved in the annual meeting of the Risk Management Team EGRC of 12.01.2018, according to Minutes 1618/12.01.2018 of the annual EGRC meeting;
- ✚ Table C12 CM - 2018 Risk Registry, Significant risks: Important and Critical company-wide – PRIORITISATION;
- ✚ Risk Registry of 2019 55227 / 09.01.2019 for significant Company risks;
- ✚ Implementation plan 55228 / 09.01.2019 of control measures, for the Company's significant risks;
- ✚ Other internal documents specific to activities;

2.2. Analysis of risks associated to activities in 2018

The update of the Company's Risk Registry the risk exposure was ascertained to have maintained at the level of previous year, residual risks being in general at the same level compared to the former evaluation.

Risks detected last years are kept properly under control; nevertheless the risk exposures associated to investment and procurement activities are quite high.

Some risks have been reformulated in view of better correlation with Transelectrica's objectives and with the Company approved documents.

New risks identified in 2018 in the organisational entities:

Lack of qualified personnel to carry out Company activities under optimum safety conditions determined incomplete achievement of the Annual Maintenance Plan (PAM) and the Annual Investment Plan (PAI), as well as the untimely achievement of the other procurements from the Annual Sector Procurement Plan (PAAS).

The consequences of such risk might be: serious malfunctions of activities, extended time intervals for contract awarding, procedural errors because the existing personnel got involved into too many procedures. The assessed risk was included in the Risk Registry as significant.

The Transmission Branch Constanta and the Transmission Branch Timisoara identified one risk which impacts their activity and had not yet been included in the branch Risk Registry, namely *Achievement of the Annual Investment Plan below the planned quantitative or qualitative Plan levels*. The causes of this risk are: delays in the procurement procedures (delays / distortions in the procurement procedures during their deployment, both during pre-offer and in the elaboration stage of awarding documentation, including the primary documents as well as the development of the award procedure); faulty elaboration of documentations (FS, TP and ToR). The assessed risk was included as significant in the Risk Registry and measures were proposed as necessary to keep such risk under control, while the Company's managerial team will be informed about measures implementation and their consequences.

From among the risks occurred in 2018 mention can be made of:

- ✚ Investment risk: the difficult financial circumstances of SMART subsidiary was provided in an Information Report for the Directorate of Transelectrica. In UEFA / DBRM they monitor the financial activities of subsidiaries and elaborate quarterly the Subsidiaries' activity report;
- ✚ The non-collection risk of money as a result of enforcement upon security instruments that guaranteed the advance payments received by contractors under investment projects;
- ✚ Difficult procurement process leading to incomplete achievement of the RET Maintenance Plan;
- ✚ Difficult procurement process leading to an Annual Investment Plan achieved below the planned qualitative or qualitative levels;
- ✚ Significant risks occurred in the transmission branches: failure / defect / unavailability of 220 kV and 400 kV OHL, primary equipment in transformer substations, transformer units and/or shunt reactors, protection & automation systems, command control monitoring systems (SCC), direct and alternating current auxiliary service installations, fire prevention and fighting installations, communications / telecommunication systems, personnel security and health, discharge / leaks of dangerous substances for the environment (smoke, SF6, oil, fuel etc.);

Main risks identified at Company level

Technical and operational risks

- Deficiencies in scheduling SEN operation and congestion management;
- Breaking up the supply of telecommunication services for SEN operation;
- Failures to installations and equipment;
- Malfunctions in the operation of the Balancing Market;
- Failure to execute or delayed execution of major and minor preventive Maintenance plans (with SMART SA);
- Failure or delayed execution of the Annual Investment Plan;
- Faulty achievement of maintenance activities for EMS/SCADA, delays or blocked path in implementing the component replacement project for EMS/SCADA; risks associated to cybersecurity;
- Unavailability of collecting, memorising and access to metering data of electricity quality;
- Delays in procuring the services necessary to complete the security and intervention stocks of Transelectrica SA;
- Improper development of user connections to electric networks of public interest;
- Incompliance with the regulated or contractual terms mainly determined by difficulties when searching to obtain rights over the lands;
- Incomplete achievement of the Annual Procurement Plan and distortion of procurement procedures with major impact over investments;
- Risks associated to the Energy market: counterparty risk, trade receivable non-collection risk, forecast risk.

Financial risks

- Interest rate risk,
- Hard currency risk,
- Risk of financing agreement covenants,
- Liquidity risk,
- Credit risk,
- Company's credit rating downgrade,
- Price risk because of the unpredictability of the energy market, which might lead to cost rises associated to CPT.

Strategic risks

- Tariff (price) risk associated to the regulatory framework,
- Volume risk,
- Implementation risk of network codes

Legal risks - licences, contractual risks, including fines from authorities or compensating payments; facing disputes with long settlement terms, high costs and uncertain result;

Security risks

- Faults in providing the security and protection of ICN/ICE critical infrastructures and in providing business continuity in emergency situations,
- Failure to provide security of classified information,
- Personnel and environment associated risks

- Failure to achieve or incomplete achievement of the Annual professional training plan,
- Improper personnel recruitment,
- Impacting the personnel security and health,
- Environmental pollution, improper waste management;

2.3. Resulting risk profile and proposed risk prioritisation and tolerance limits

At the level of organisational entity (division, department, transmission branch) exposure was assessed for each risk both as INHERENT risk (exposure to the objective achievement risks, in the absence of any action that might be taken in order to mitigate its likelihood and/or impact) and as RESIDUAL risk (exposure to the objective achievement risk, remaining after establishing and implementing the risk treatment measures), assessments included in the Risk Registry at organisational entity level.

2.4. Keeping risks under control; actions

The actions established in 2018 to keep risks under control were included in the “Action plan to keep risks under control and limit the possible consequences of risk occurrence as included in the Risk Registry and Implementation state of control measures”, document elaborated at organisational entity level. Based on such documents the Company’s Implementation plan 48168/21.12.2017 was elaborated for control measures, their application stage being followed by the guidance and control provided by the Risk Management and Control Group. The actions provided in 2018 to keep risks under control mainly diminished the occurrence probability and the risk impact as against inherent risks.

Risks that occurred were treated in accordance with the adopted strategy imposed by the circumstances that facilitated such risk occurrence.

The predominant strategy content was as follows:

1. Risk treatment to remove / mitigate it at acceptable level by means of measures
2. Risk monitoring;

From among the internal control instruments used we can mention:

- ✓ Measures in the procurement / maintenance / investment / personnel professional training plans;
- ✓ Elaborating or reviewing procedures;
- ✓ Changing the process and structure of organisation;
- ✓ Performance indicator attached to the objective;
- ✓ Personnel redistribution;
- ✓ Constituting or updating databases;

In case risks occur control measures were intensified and check-ups for similar situation in order to prevent risk occurrence or new risks.

Control measures in organisational entities (division, department, transmission branch) are fully implemented or under implementation.

In 2018 no corruption cases were found; the 2016-2020 National anticorruption Strategy and the Company's Integrity Plan were implemented.

The actions established for 2019 to keep risks under control are included in the 2019 Implementation plan of control measures for the Company's significant risks, submitted for Directorate approval. It comprises at every risk: causes, estimation of inherent risk (likelihood and impact), control – prevention measures with deadlines and responsible people, consequences, control measures to limit consequences with deadlines and responsible people, estimation of the residual risk (likelihood and impact), entities managing the risk.

In 2018 risk management was properly conducted Company-wide, full and timely observing legal requirements and internal regulations. Nevertheless in case of major risks such as incomplete achievement of the RET Maintenance Plan, Annual Investment Plan achieved below the qualitative or quantitative levels, delayed achievement of the Sector Procurement plan radical measures should be identified and applied as well as using all legal means enabling higher achievement degree of such plans.

As progress axes render risk management efficient we can mention from among the measures included in the Report 50584/29.11.2018 on the achievement stage of the *Guidance and control plan of the Risk management and control group* - GMCR with respect to significant risks of May 2018 – April 2019 as follows:

- ✓ Grounding the activities / projects proposed to be included in annual investment, procurement and maintenance plans in order to include risk management aspects as well: what Company risks are diminished and estimating effects with respect to impact changing and the occurrence likelihood of the respective risks; such aspects will be also included in the reports about the achievement of annual plans.
- ✓ Reports (synopsis) about the achievement of annual investment, procurement and maintenance plans should be submitted for information to the Chairman of the Risk management team of the Company as well, in order to supervise how risks are kept under control.
- ✓ Detecting inter-dependences: what other organisational entities can induce risks in the activities of other organisational entity; what other organisational entities can be impacted in case risks occur in the activity of a Company organisational entity.

The Audit Committee submits regularly or every time there is need reports about its activities to the Supervisory Board.

Audit Committee Chairman,

Adrian MITROI _____

or

the Audit Committee of the Supervisory Board, comprising:

Adrian MITROI; _____



Gheorghe OLTEANU;

Fanel MIHALCEA;

Alin- Sorin MITRICA;

Constantin DUMITRU;

Liviu ILASI

Ion CIUCULETE.

