

NOTE

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

I. Generalities and context

The Company for Maintenance Services to the Electricity Transmission Grid Smart SA (**hereinafter „SMART SA”**) has the following shareholder structure:

- National Power Grid Company Transelectrica SA (**hereinafter “Company” or “Transelectrica”**) holding 70.006% of the share capital;
- The Romanian State by the Ministry of Economy, holding 29.994% of the share capital.

On 27.03.2019 SMART SA transmitted to shareholders letter 1951/27.03.2019, in view of approval by the Shareholders' general assembly of SMART SA, and the *Economic-financial restructuring plan for the activities of Smart SA* no. 1893/25.03.2019 endorsed by the company's Board of administration under Decision 6/25.03.2019, the documents being registered under no. 15386/27.03.2019 in the Company.

In accordance with the transmitted documents the Board of administration of SMART SA informed the company's shareholders about the significant worsening of the company's financial situation in recent times, owing to the absence of financial resources to pay outstanding legal and contractual liabilities, which has led to accruing a total volume of payment liabilities with due date exceeded by more than 60 days, in quantum of 4.19 million Lei. Under such circumstances the Board of administration of SMART SA transmitted to shareholders' approval an Economic-financial restructuring plan for the activities of SMART SA, containing as central item the need to capitalise SMART SA in quantum of 24 million Lei. Taking into consideration the role of SMART SA of maintenance subsidiary for the electricity transmission network, as well as the particular significance of maintenance operations in the grid for the operational safety of the National Power System, the Company's executive management urgently examined the company's situation and decided initiating the required legal steps and measures to solve the situation of SMART SA, so as not to endanger the continuity of maintenance activities and to fight the insolvency of SMART SA.

In accordance with article 121 of the Company Law 31/1990, the shareholders of subsidiary SMART SA, namely the Company and the Romanian State through the Ministry of Economy, gathered on 28 March 2019 for the Shareholders' general assembly, which unanimously

approved the *Economic-financial restructuring plan for the activities of SMART SA* (under no. 1893/25.03.2019 and endorsed by the company's Board of administration under Decision 6/25.03.2019), since the Assembly is competent "to approve proposals for the overall development, modernisation, and economic-financial restructuring strategy of SMART, as well as to contract long-term bank loans".

As regards the capitalisation of SMART SA in quantum of 24 million Lei, the Company's additional participation to the subsidiary's share capital means approval by the Shareholders' general assembly of the Company in accordance with article 14 para (3) let. b) of the Company's Articles of association.

II. Particular significance of providing maintenance operations into the grid as regards the safe operation of the National Power System

Maintenance activities in Transelectrica comply with the Maintenance Plan (PAM) elaborated using the Regulation to run and organise maintenance operations approved by Order of the National Regulatory Authority in the Energy domain (ANRE), one's own Maintenance Strategy, the Preventive maintenance plan to RET installations and equipment (Internal Technical Norm of CNTEE Transelectrica SA - NTI-TEL-R001-2007) and the Annual maintenance plans (PM).

At present maintenance activities are performed according to the contract concluded with SMART SA (pertaining to minor, preventive and corrective maintenance) and to the major maintenance contracts (current & capital repairs).

Providing maintenance work and services leads first of all to reduced number and times of accidental events and their consequences. Thus without provision of preventive maintenance the SEN (National Power system) can no longer be predictable in terms of safe uninterrupted operation, while the absence of corrective maintenance, namely interventions performed in order to remove non-conformities generated by accidental events into RET installations can lead to cascading effects that may determine not only the deterioration of Company-managed installations but also discontinue the supply of the distribution network (and of its consumers) or of the consumers directly supplied from the electric substations managed by the Company.

Mention should be made that the managed functional assemblies contribute to supplying some important consumers and to discharge electricity from areas with highly concentrated electricity output, of which:

1. Nuclear Power Plant of Cernavoda, which injects power by the 400 kV OHLs: Cernavoda – Medgidia, Cernavoda – Constanta Nord, Cernavoda – Gura Ialomitei 1+2 and Cernavoda – Pelicanu;
2. Hydropower plant Portile de Fier, which injects electricity by the 400 kV OHLs: Portile de Fier – Urechesti, Portile de Fier – Slatina, Portile de Fier - Djerdap and by the 220 kV OHLs: Portile de Fier – Severin Est, Portile de Fier – Cetate;
3. The Slatina Alro Works, supplied from the 400 kV substation Slatina;
4. ArcelorMittal Galati Works, supplied from the 400 kV substation Barbosi and the 220 kV substation Smardan.

Also mention can be made the maintenance of equipment managed by Transelectrica provides removal of risks of particular environmental impact. The Company manages operational equipment containing noxious substances (oils, sulphur hexafluoride) which

might lead, without continuous monitoring processes specific for maintenance, to environmental degradation with consequences difficult to quantify.

To conclude, providing continuous maintenance works and services by adequate quantity and quality complies with the following important requirements:

- Maintaining a proper operational safety of RET installations;
- Maintaining the inherent reliability of functional assemblies and their component equipment;
- Increasing the availability of installations;
- Optimising the total costs during utilisation;

III. Analysis of the economic-financial restructuring in view of recovering SMART SA and capitalising the subsidiary

The economic-financial restructuring plan for the activities of SMART SA in conservative manner provides reducing operational revenues by 4.58 million Lei. There are changes in the revenue structure, namely:

- Higher revenues by 10.7 million Lei from the maintenance contracts with Transelectrica;
- Zero revenues from the investment projects with Transelectrica (assumptions are the investment contracts Raureni, Arefu and Dumbrava will cease);
- ,Other revenues' entry was reduced by 5.12 million Lei;
- No revenues were estimated from other activities to complete the maintenance contract with Transelectrica, any other revenues generated by SMART SA above it leading to higher profitability and positive cash flows;

Similarly the Plan also provides reducing expenses, a process following which operational expenses (without amortisement) will be reduced by 9.79 million Lei in 2019 (transition year), namely 10.92 million Lei. Further on operational expenses will be maintained at 59 million Lei.

The Plan also includes capital infusion from Transelectrica amounting to 24 million Lei which should provide: (i) paying the outstanding liabilities to suppliers not paid on due date, (ii) paying the bank debt and (iii) current capital covering the necessary operational activities for about 1.5 months.

Considerations in terms of implementing this Plan in SMART SA

- If the Economic-financial restructuring plan is implemented successfully the subsidiary will generate a net marginal positive result (profit). Thus in the 5 years of forecast the profit before taxes will amount to 4.31 million Lei;
- The estimated profit will recover only 18% of the loss cumulated in 2015 – 2018 (about 24.7 million Lei), namely 18% of the capital infusion;
- The Plan does not provide dividend distribution in the following 5 years and thus the achieved profit will be reinvested into Smart and, together with the capital increase will lead to boosting the equities from 70.07 million Lei (Dec. 2018) to approximately 98.38 million Lei (Dec. 2023). In this respect subsidiary SMART remains in the comfortable area of the Net Asset value;

Considerations as regards Transelectrica

- The Plan points out on the one hand the precarious financial situation of the subsidiary with the main reasons leading to such present-day incapacity to pay the financial liabilities towards: employees, ING Bank and suppliers (of utilities, services etc.), and on the other hand the immediate consequences impacting the risk of defaulting the contractual clauses of the maintenance and RET investment contracts concluded with Transelectrica.
- Consequently such operational risk for Transelectrica (absence of minor maintenance services to RET) is a situation generating significant financial risks according to Law 123/2012 article 93 para 47, specifying that "*the incompliance of the electricity transmission system operator and of electricity distribution operators with their maintenance and investment plans upon the terms and conditions established in ANRE regulations*" is an offence.
- Under such circumstances the offence is sanctioned by „*fine amounting to between 5% and 10% of the annual turnover*". As regards Transelectrica's 2018 turnover of 2,675,324,156 Lei, if we apply the legal provisions for the lower fine threshold (5%), the liability is estimated to about 134 million Lei. Fine expenses are not fiscally deductible;
- The amount of such fine exceeds the capital infusion requested by SMART SA to provide uninterrupted activity;
- Taking into account that to date no statutory body has taken a decision to inject capital to SMART, the revenues of SMART from the maintenance contract to be collected for 2019 are grounded on the assumption of the trend similar to last months. In case of monthly average about 4.25 million Lei, representing the average monthly value of maintenance activities that SMART is capable to perform at present, under this regime of financial constraints with no access to new capital sources, it follows the volume of maintenance activities SMART might perform without any capital infusion is estimated to about 51 million Lei. The difference between 67 million Lei assumed by the managerial team of SMART in the Restructuring plan and the amount of 51 million Lei from Transelectrica's analysis is justified precisely by the incapacity of SMART, with no capital infusion, to reach the necessary level of maintenance activities given the absence of current capital and of financial resources to cover the deficit of cash flow. A complete financial exercise with achievements of 67 million Lei from maintenance can be but subsequent to the approval moment of the capital infusion by all statutory bodies, as for now such infusion is only a possibility not certitude.
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IV. Analysis of the possible involvement modes for Transelectrica in the economic-financial restructuring of activities in SMART SA

Current financial situation of SMART SA

The main items describing the financial situation of SMART SA, as resulting from the Economic-financial restructuring of activities and have been used in this analysis are as follows:

- Beginning with 2015 SMART SA constantly registered significant operational losses of about 27.7 million Lei;
- The successive managerial teams of SMART SA in 2015 – 2018 failed to reduce the operational costs to a sustainable level, and they covered the difference between revenues and expenses by subsequent proceeds from the ING credit line;
- In May 2018 without Transelectrica's approval and without complying with the minimum prudential conditions for such decision SMART SA committed to ING to obtain from Transelectrica full security of its exposure to the credit line;
- The managerial team of SMART SA was not capable to renegotiate/refinance the ING loan in 2018, so that in September 2018 ING blocked any new collection from the credit line;
- Until November 2018 the successive managerial teams of SMART SA were incapable to prepare and submit to shareholders a reorganisation plan that should return the company to a level of operational profitability;
- Beginning with September 2018 to date, by losing the access to new proceeds SMART SA accumulated unpaid liabilities to suppliers in total quantum of **9.4 million Lei** (of which **8.7 million Lei** overdue);
- SMART SA currently owes to ING the repayment of all proceeds from the credit line amounting to **7.4 million Lei**, due dates being extended by the bank over very short time intervals in view of applying the company's reorganisation plan;
- To properly conduct its currently committed activities SMART SA needs additional amounts of **7.2 million Lei**, funds it cannot sustain from its own current revenues;
- SMART SA registers current operational losses (difference between actual collected revenues and actual expenses of every month) of about **428,000 Lei** each month;
- Upon proposal of the managerial team of SMART SA on 28.03.2019 the shareholders (Transelectrica and the Romanian State, by the Ministry of Economy) approved a reorganisation plan with the following main elements:
 - o Capital infusion of **24 million Lei**,
 - o Revenue projection of **67 million Lei** a year,
 - o Reduced annual expenses by about **10 million Lei**, as effect of applying a mix of measures from the reorganisation plan, to a total of about **60 million Lei** annually,
 - o A cumulated 5 years' profit of **4.3 million Lei**, showing the balance of operational results after the application of the reorganisation plan;

Evaluating the projects of SMART

In view of diversifying activities these last years the managerial team of SMART decided to attempt getting involved in some investment projects as well besides the main activity it was established for (providing maintenance services to the benefit of Transelectrica).

To this effect SMART participated as bidder to several competitive procurement procedures initiated by Transelectrica and pertaining to refurbishment works in the transformer substations Dumbrava, Arefu and Raureni (hereinafter called the Dumbrava, Arefu, and Raureni projects).

As regards evaluating these projects in view of determining the success chance and the financial efficiency of each project individually one should specify the following:

- In each one of the contracts separately, in accordance with the standard granting documentation used by Transelectrica for refurbishment work the payment scheme assumed is as follows: 30% down payment when the contract begins (only for the contractual part of equipment and work), 60% upon installations (of equipment) or upon completing the execution (for work), 5% when the substation is commissioned and 5% upon expiry of guarantee period;
- In case SMART assumed a different payment scheme to its suppliers and subcontractors, which means the obligation to pay amounts of money before the time when Transelectrica is obliged to properly pay the respective portion of the contractual price creates premises of negative cash flow in the contract, which translates into the need for SMART to temporarily procure from other sources (unconnected with the payments of Transelectrica under the contract) some amounts of money which it should pay to suppliers/subcontractors upon the terms of their contracts, waiting for the necessary time to elapse in order to 'recover' such amounts from the collections of invoices under the contract with Transelectrica;
- The failure of SMART to obtain fund sources outside the contract with Transelectrica and to pay on due dates its suppliers/subcontractors entitles the latter to stop providing on the due date and thus blocking the project progress and implicitly reaching the date when Transelectrica can have the contractual right to accept and make the assumed payments.

The updated financial efficiency of each one of the three projects is provided in the tables below:

DUMBRAVA Project			
(Estimation of completion delay – 270 days)			
NO.	NAME	VALUE (Lei)	% of the contractual value
1	TOTAL CONTRACTUAL PRICE	20,500,000	100.00%
2	UNFORESEEN EXPENSES	674,081	3.29%
3	TOTAL REMAINING CONTRACTUAL VALUE (3=1-2)	19,825,919	96.71%
4	TOTAL EQUIPMENT AND SUBCONTRACTORS	17,996,502	87.79%
5	VALUE OF THE PART ACHIEVED BY SMART (5=3-4)	1,829,417	8.92%
6	ESTIMATED VALUE OF DIFFERENT MATERIALS	630,000	3.07%
7	VALUE OF OPERATIONAL PROFIT OF THE CONTRACT (7=5-6)	1,199,417	5.85%
8	Cost to issue the performance bond	63,166	0.31%

9	Cost to issue security of down payment return	225,904	1.10%
10	Insurance costs for construction	6,730	0.03%
11	Delay penalties (no. delay days = 270 * 0.02% * contractual value without unforeseen items)	1,070,599	5.22%
12	FINANCIAL PROFITABILITY OF THE PROJECT (12=7-8-9-10-11)	-166,982 lei	-0,81%

AREFU Project

(Estimation of completion delay – 540 days)

NO.	NAME	VALUE	% of the contractual value
1	TOTAL CONTRACTUAL PRICE	24,171,705	100.00%
2	UNFORESEEN EXPENSES	1,823,604	7.54%
3	TOTAL REMAINING CONTRACTUAL VALUE (3=1-2)	22,348,101	92.46%
4	TOTAL EQUIPMENT AND SUBCONTRACTORS	19,638,283	81.24%
5	VALUE OF THE PART ACHIEVED BY SMART (5=3-4)	2,709,818	11.21%
6	ESTIMATED VALUE OF DIFFERENT MATERIALS	1,350,000	5.59%
7	VALUE OF OPERATIONAL PROFIT OF THE CONTRACT (7=5-6)	1,359,818	5.63%
8	Cost to issue the performance bond	89,500	0.37%
9	Cost to issue security of down payment return	251,785	1.04%
10	Delay penalties (no. delay days = 270 * 0.02% * contractual value without unforeseen items)	2,413,594	9.98%
11	FINANCIAL PROFITABILITY OF THE PROJECT (11=7-8-9-10)	-1,395,061	-5.76%

RAURENI Project

(Estimation of completion delay – 450 days)

NO.	NAME	VALUE	% of the contractual value
1	TOTAL CONTRACTUAL PRICE	16,856,207	100.00%
2	UNFORESEEN EXPENSES	624,905	3.71%
3	TOTAL REMAINING CONTRACTUAL VALUE (3=1-2)	16,231,302	96.29%
4	TOTAL EQUIPMENT AND SUBCONTRACTORS	14,134,639	83.85%
5	VALUE OF THE PART ACHIEVED BY SMART (5=3-4)	2,096,663	12.44%
6	ESTIMATED VALUE OF DIFFERENT MATERIALS	1,000,000	5.94%
7	VALUE OF OPERATIONAL PROFIT OF THE CONTRACT (7=5-6)	1,096,663	6.51%
8	Cost to issue the performance bond	75,726	0.45%
9	Cost to issue security of down payment return	154,827	0.92%
10	Insurance costs for construction	15,052	0.09%
11	Delay penalties (no. delay days = 270 * 0.02% * contractual value without unforeseen items)	1,460,817	8.66%
12	FINANCIAL PROFITABILITY OF THE PROJECT (12=7-8-9-10-11)	-609,759	-3.61%

Specific risks of projects execution:

- Extended delay of project completion, for any reason;
- Blocking the contractual execution by any supplier/subcontractor that has certain liquid payable trade liability;
- SMART incapacity to identify/replace suppliers/subcontractors for parts of contracts that it cannot execute alone, in case they are inexistent at present or in case they disappear in the next period for any reason whatsoever (insolvency, contract abandon, termination etc.);
- Increase of SMART costs relating to contract execution either for reasons imputable to SMART or for reasons that entitle the contractual partner to benefit of price rises or for reasons that make it impossible continuing to provide under the existent terms.

To conclude, all three projects have already entered the negative financial profitability stage, any event of adverse impact occurring in the near future can affect even more unfavourably the project's profitability indicators. Under such circumstances, the success chances of the three projects can seriously prejudice the commitments of Transelectrica under the Annual

Investment Plan thus infringing the obligations assumed towards the National Regulatory Authority in the Energy domain.

TEL PROJECTS

Decisional constraints of Transelectrica

In order to correct the foundation of such analysis and select the optimum intervention measures to solve the situation of SMART SA Transelectrica should take into account the following constraints resulting both from the applicable legislative framework and from the specific activities related to the operational safety of the National Power System:

1. The operational safety of the National Power System requires imperatively that **maintenance activities should be continuous in nature** (both in terms of the periodical control and inspection plans, called **preventive maintenance**, and in terms of the exceptional fast intervention component in order to remedy the effects of accidents and defects, called **corrective maintenance**);
2. The direct financial consequence of the failure to comply with the annual maintenance plan is the sanction of Transelectrica by **fine** in quantum of 5% of the turnover (thus the fine value amounting to **134 million Lei**), in accordance with the provision of article 194 item 42 and of article 195 para (1) let. e) of the Energy Law 123/2012;
3. Taking into account the practice of previous years Transelectrica is considered to infringe its obligation to carry out the annual maintenance plan if the total value of such activities is below 75% of the assumed annual amount, which will means in practice stopping the maintenance activities for a cumulated interval of over **90 days**;
4. **Transelectrica's granting a reimbursable financing to SMART SA violates the economicity and efficiency conditions of managerial acts**, since the Economic-financial restructuring plan of activities assumed by the company's director general and by the Board of administration undoubtedly shows **Smart is not capable to reimburse either the 7.2 million Lei currently owed to ING, nor a possible new financing (irrespective of its quantum) granted by Transelectrica or by other entity and will not acquire such capacity in the following 5 years, even if it implements all the proposed measures to reduce expenses**;

Concluding to found its measures Transelectrica should take into account that any scenario which might block the current activities of SMART SA for **more than 90 days** will inevitably entail a direct negative financial consequence for Transelectrica of about **134 million Lei**, in the form of fine charged by ANRE.

Detected risks

- The Economic-financial restructuring plan for the activities of SMART SA (in the form approved by shareholders) can be implemented late or the expense reduction measures can be applied only partially;

- Temporising the application of necessary measures to implement the Economic-financial restructuring plan for the activities of SMART SA (in the form approved by shareholders) by the Director General and/or the Board of administration of Smart;
- The capital infusion can be insufficient taking into account the time elapsed until formalities were carried out and amounts were made available in the company's accounts;
- ING Bank can no longer extend the facility and Smart can be faced with impossible payment of salaries and current liabilities;
- The insolvency procedure can be initiated before implementing the economic-financial restructuring plan for the activities of SMART SA (in the form approved by shareholders);
- Delays in the process and of the diligence necessary to make the capital infusion;
- Occurrence of any unpredictable events that might result in incompliance with deadlines;

A. Analysis of work scenarios that mean no restructuring by capital infusion

A1. Status-quo scenario

Description: The status-quo scenario means continued activities of SMART SA with no significant changes in the existing contractual framework, no drawing of new funds or unblocking the existing funds and without initiating the insolvency procedure.

Advantages:

- The shareholders of Transelectrica should not assume a decision to engage financial resources for SMART SA, such money is to be used for any other productive goals (including, for instance, placing it into financial instruments of minimum secured efficiency);
- Given the high (financial and time) costs which an insolvency procedure entails the main creditors of SMART SA are interested in deferring the enforcement decision (or insolvency launching) of SMART SA, hoping for a solution remedying the company's financial situation that provides fast recovery of trade receivables;

Disadvantages/Risks:

- The current level of outstanding liabilities in SMART SA is not sustainable, and their being unpaid means imminent blockage of all company activities;
- Each month the number of SMART SA creditors grows and they can initiate insolvency therefore implicitly there is higher likelihood one of them might give up waiting the application of a remedial solution and refer to the court;
- If the application of this scenario will result in forceful initiation of insolvency or the capital infusion, this time interval between the current day and the application date of some drastic measures does no other thing than weakening more the financial situation of SMART SA.
- In case when regardless of procedural reasons maintenance activities are stopped/delayed for at least 90 days, then for Transelectrica its incompliance with the annual maintenance plan becomes certain and the consequence is the 134 million Lei fine;

A2. Insolvency scenario

Description: The insolvency scenario means in the immediately following period the insolvency procedure is instituted for Smart.

None of the statutory bodies of Transelectrica has the legal competence to launch a possible insolvency procedure of SMART SA according to Law 85/2014 on the procedures preventing insolvency and insolvency, no matter how serious the economic-financial situation of SMART SA is.

In case the insolvency procedure begins:

Main stages (with minimum terms):

- Submitting the request to open the insolvency procedure; the entities that can request initiation now are: either the Board of administration of SMART SA applying the legal obligation provided in article 66 of the Insolvency Law 85/2014, or any of the 12 suppliers with liability of at least 40,000 Lei being outstanding for more than 60 days (T0);
- Appointing the judiciary administrator (that takes over the company's administration from the Board, which ceases all activity) (T0+10 days);
- Drawing up the Preliminary liability table (containing all liabilities arising before the procedure (T0+65 days);
- Convening the first meeting assembling the creditors and appointing the creditors' committee (T0+70 days);
- The judiciary administrator will terminate the contracts which, if continued, might impact badly the company's financial results (T0+90 days);
- Approval for the final Liability table (T0+90 days);
- Approval for the reorganisation plan under insolvency (T0+155 days).

Advantages:

- During the procedure all enforcements are suspended (including the blockage of accounts) as well as all court files against SMART SA pertaining to the liabilities occurred before opening the procedure;
- The judiciary administrator can terminate any contract which, if continued, can impact badly the financial situation, including the investment contracts with Transelectrica, the contracts with the suppliers sustaining the investment contracts and certain individual labour contracts (direct unproductive personnel);
- SMART SA can continue its basic activity under the maintenance contract with Transelectrica;
- When the Reorganisation plan under insolvency is approved it is possible to significantly reduce the outstanding debits of SMART SA, leading to an improvement of its financial results.

Disadvantages/Risks:

- The insolvency procedure allows several procedural events (interventions, contestations, requests to the judiciary administrator or to the syndic judge) which delay much the implementation terms of the stages;
- Even if all outstanding debits of SMART SA are frozen when the insolvency is opened (ING or the suppliers with outstanding liabilities cannot satisfy their

- claims during the observation stage until the Plan is approved), each month SMART SA further registers significant operational loss;
- Capital infusions of any kind are much more difficult to apply under insolvency procedure (they require not only the financier's approval and of the director general's of SMART SA, but equally the agreement of the judiciary administrator, creditors' committee and of the syndic judge's, a simple exercise to harmonise all such positions presupposing many months of preparation and negotiation);
 - There is a significant risk that, in the absence of capital type financial resources which is added every month a net operational loss, current revenues can no longer be enough to pay the personnel and they will leave the company in great numbers or will cease all activities. This risk is of very high probability of occurring at the end of 2019 at the latest, when current maintenance activities are reduced to a small level during winter given the climatic conditions, and revenues are substantially smaller than current expenses;
 - In case when regardless of procedural reasons maintenance activities are stopped / delayed for at least 90 days, then for Transelectrica its incompliance with the annual maintenance plan becomes certain and the consequence is the 134 million Lei fine.

A3. Scenario of fusion by absorption

Description: The fusion by absorption scenario means taking all steps as necessary to achieve fusion by absorption between Transelectrica and SMART SA. As an effect of such fusion SMART SA will be dissolved without liquidation and all the assets and liabilities of SMART SA are transferred to Transelectrica, while the shareholders of SMART SA will receive new Transelectrica shares, according to the valuation of Smart.

Main stages (with minimum terms):

- Transelectrica will contract expertise/valuation services in order to determine the market value of Smart, the distribution of fusion resulting shares between the shareholders of Transelectrica and the shareholders of Smart (T0 + 120 days)
- The experts execute the valuation report and any other draft documents necessary for fusion by absorption (T0 + 180 days)
- Elaborating and publishing the proposed fusion in the Official Gazette by the Board of administration of Smart and the Directorate of Transelectrica, a project that should include the distribution rules of Transelectrica shares which the Romanian State will acquire as a result of such fusion (T0 + 190 days)
- Submission by any interested creditor of the fusion opposing demand (T0 + 220 days)
- Obtaining the court judgment settling the opposition request (all the other terms are automatically extended with the final settlement term of such request, about 1 year)
- The Financial Supervisory Authority should endorse the proposed fusion (T0 + 250 days);

- The general assemblies of Transelectrica and Smart should approve the changes in the articles of association regarding the fusion by absorption (T0 + 290 days)
- The shareholders of Transelectrica that did not agree with the fusion are entitled to withdraw from the company and request Transelectrica to purchase their shares (T1 + 320 days).

Advantages:

- The shareholders of Transelectrica should not assume a decision to engage financial resources for SMART SA, such money is to be used for any other productive goals (including, for instance, placing it into financial instruments of minimum secured efficiency);

Disadvantages/Risks:

- Extremely great implementation term;
- Transelectrica assumes all the contractual and financial obligations that SMART SA has upon fusion, regardless of the profitability and utility of juridical relations in this case, including the relationships with the suppliers and employees of SMART SA.
- The current level of SMART SA outstanding liabilities is not sustainable, and their being unpaid means imminent blockage of all company activities;
- Each month the number of SMART SA creditors grows and they can initiate insolvency therefore implicitly there is higher likelihood one of them might give up waiting the application of a remedial solution and refer to the court;
- If the application of this scenario will result in forceful initiation of insolvency or the capital infusion, this time interval between the current day and the application date of some drastic measures does no other thing than weakening more the financial situation of SMART SA;
- In case when regardless of procedural reasons maintenance activities are stopped / delayed for at least 90 days, then for Transelectrica its incompliance with the annual maintenance plan becomes certain and the consequence is the 134 million Lei fine.

A4. Internalisation scenario

Description: The internalisation scenario means Transelectrica will engage all human resources necessary to fully carry out by its own work force the maintenance activities previously provided by SMART SA, as well as to procure the equipment and outfits necessary for this.

Main stages (with minimum terms):

- Transelectrica will perform technical analysis in order to determine estimations for the equipment, outfits and the number and expertise of directly productive personnel required to carry out maintenance activities by one's own force (T0 + 30 days);
- Transelectrica takes the decision to amend all deeds (budget, organisational chart, personnel funds, procurement plan etc.) in view of internalising maintenance activities (T0 + 60 days);

- Transelectrica launches procedures to open the competition for the newly established jobs at national level, meant to hire directly productive personnel that will actually provide maintenance activities (T0 + 120 days);
- Transelectrica initiates internal procedures and activities to prepare/train the personnel in order to assume achievement of maintenance activities by one's own personnel (T0 + 150 days);
- Transelectrica obtains the certifications/ special permits necessary for actual provision of maintenance activities (T0 + 180 days);
- Transelectrica will contract the procurement of equipment (T0 + 180 days);
- Terminating the maintenance contract with SMART SA (T0 + 180 days).

Advantages:

- Transelectrica shareholders should not assume a decision to engage financial resources for SMART SA, such money is to be used in other purposes, including the procurement of necessary equipment/outfits and to increase the wage fund of Transelectrica in order to pay the newly hired personnel for maintenance activities;

Disadvantages/Risks:

- Long implementation time;
- At the end of the internalisation SMART SA has no choice but bankruptcy;
- The current level of SMART SA outstanding liabilities is not sustainable, and their being unpaid means imminent blockage of all company activities;
- Each month the number of SMART SA creditors grows and they can initiate insolvency therefore implicitly there is higher likelihood one of them might give up waiting the application of a remedial solution and refer to the court;
- If the application of this scenario will result in forceful initiation of insolvency or the capital infusion, this time interval between the current day and the application date of some drastic measures does no other thing than weakening more the financial situation of SMART SA;
- In case when regardless of procedural reasons maintenance activities are stopped / delayed for at least 90 days, then for Transelectrica its incompliance with the annual maintenance plan becomes certain and the consequence is the 134 million Lei fine.

B. Analysis of working scenarios assuming restructuring by capital infusion

B1. Scenario granting the restructuring loan

Description: Restructuring Loan Scenario means Transelectrica will grant to SMART SA of a loan covering all its outstanding financial exposures under conditions ensuring that Smart continues to operate during the implementation of the restructuring.

Main stages (with minimum terms):

- The executive management of Transelectrica and SMART SA will negotiate the loan terms (especially regarding the repayment term, the interest and the

structure of securities that can be set up by SMART SA in favour of Transelectrica) (T0 + 30 days);

- Drawing up SMART SA's movable and immovable property evaluation report on which the loan repayment security is to be made (their market value being predictably, significantly lower than the company's inventory value) (T0 + 60 days) ;
- Convening of the Shareholders' General Assembly by Transelectrica's Directorate for the purpose of granting the loan to SMART SA (T0 + 60 days);
- Convening of SMART SA's Shareholders' General Assembly by Smart Management Board for the purpose of obtaining the loan by Smart (T0 + 65 days);
- Approval of Transelectrica's Shareholders' General Assembly for the purpose of granting the loan to SMART SA (T0 + 90 days);
- Approval of SMART's Shareholders' General Assembly to obtain the loan by Smart (T0 + 95 days);
- Signing of the loan agreement between Transelectrica and SMART SA and the actual payment of the amount to Smart (T0 + 95 days).

Advantages:

- A relatively short implementation period;

Disadvantages/Risks:

- Granting reimbursable financing to an insolvent who, even in the case of implementing a significant expenditure reduction program, doesn't and will not have the ability to repay the borrowed amount at maturity (as already proved by the financial projections assumed by SMART SA's director general and Management Board) is a managerial decision that violates the conditions of economy and efficiency;
- If the application of this scenario will result in the insolvency of SMART SA prior to the signing of the loan agreement, the duration of the entire process will inevitably be very delayed by the application of the insolvency procedure specific formalities, risking to block SMART SA's activity.

B2. Guaranteeing Restructuring Loan Scenario

Description: the Restructuring Loan Guarantee scenario means Transelectrica guaranteeing the ING loan and defining how to recover from SMART SA the amounts enforced by ING on behalf of the guarantee, under conditions that ensure the continuation of SMART SA's activity during the implementation of the restructuring. In order for Transelectrica to be able to issue a security letter in favour of SMART SA, it is mandatory that, prior to issue, a legal act should be negotiated and concluded between Transelectrica and SMART SA setting forth in detail the obligations assumed by SMART SA if ING will enforce the security letter, in particular the obligations regarding the repayment period to Transelectrica of the amount enforced by ING, the costs during the reimbursement period, and the security structure granted by SMART SA to Transelectrica in order to support its obligation return of the enforced amount. This legal act prior to the issuance of the security letter has the legal nature of a loan agreement affected by the suspensive condition of the bank's enforcement of the security letter and its approval must follow the legal and statutory rules applicable to loan agreements (approval of Transelectrica's SGA)

Main stages (with minimal deadlines):

- Negotiation by the executive management of Transelectrica and SMART SA of the conditions of the bilateral legal act that will be the basis of the future issue of the security letter (especially regarding the obligations assumed by SMART SA in case ING will enforce the security letter: reimbursement by SMART SA of the enforced amount, the interest / cost and the security structure that may be constituted by SMART SA in favour of Transelectrica in order to ensure the return of the enforced amount to Transelectrica) (T0 + 30 days);
- Drawing up of SMART SA's movable and immovable property evaluation report on which the loan repayment security is to be made (their market value being predictably, significantly lower than the company's inventory value) (T0 + 60 days) ;
- Convening of the Shareholders' General Assembly by Transelectrica's Directorate so that Transelectrica and Smart conclude a legal act of the type of loan contract affected by the suspensive condition of the enforcement of the security letter by ING (T0 + 60 days);
- Convening of SMART SA's Shareholders' General Assembly by Smart Management Board so that Transelectrica and Smart conclude a legal act of the type of loan contract affected by the suspensive condition of the enforcement of the security letter by ING (T0 + 65 days);
- Approval of Transelectrica's Shareholders' General Assembly of a legal act of the type of loan contract affected by the suspensive condition of the enforcement of the security letter by ING (T0 + 90 days);
- Approval of SMART's Shareholders' General Assembly so that Transelectrica and Smart conclude a legal act of the type of loan contract affected by the suspensive condition of the enforcement of the security letter by ING (T0 + 95 days);
- Signing of the loan agreement between Transelectrica and SMART SA and the issue of the security letter by Transelectrica (T0 + 95 days).

Advantages:

- A relatively short implementation period;

Disadvantages/Risks:

- The issue by Transelectrica of a security letter for the payment by SMART SA of the ING credit is a masked loan because SMART SA, even in the case of implementing a significant expenditure reduction program, doesn't and will not have the ability to repay at maturity the borrowed amount from ING (as already proved by the financial projections assumed by SMART SA's director general and Management Board), the enforcement of the letter not being uncertain and dependent on unpredictable factors but, on the contrary, inevitable. Therefore, the issue by Transelectrica of a security letter in favour of ING is a managerial decision that violates the conditions of economy and efficiency;
- If the application of this scenario will result in the insolvency of SMART SA prior to the signing of the loan agreement, the duration of the entire process

will inevitably be very delayed by the application of the insolvency procedure specific formalities, risking blocking SMART SA's activity.

B3. Restructuring Capital Increase Scenario

Description: The Restructuring Capital Increase Scenario means the subscription by Transelectrica of a capital increase to SMART SA, with the amounts resulting from the increase, covering all its outstanding financial exposures under conditions that will ensure the continuation of the activity by SMART SA during the implementation of the restructuring.

Main stages (with minimal deadlines):

- Convening of the Shareholders' General Assembly by Transelectrica's executive management to approve Transelectrica's participation in a share capital increase for SMART SA by 24 million lei (T0);
- Convening of SMART SA's Shareholders' General Assembly by Smart Management Board to approve the share capital increase for SMART SA by 24 million lei (T0 + 5 days);
- Approval of Transelectrica's Shareholders' General Assembly of Transelectrica's participation in a share capital increase for SMART SA by 24 million lei (T0 + 30 days);
- Approval of SMART's Shareholders' General Assembly of SMART SA's share capital increase by 24 million lei (T0 + 35 days);
- publishing in the Official Gazette (T0 + 65 days);
- The subscription by the shareholder / shareholders of the new shares related to the increase and the actual payment of the 24 million lei, on account of the share capital increase of Smart SA (T0 + 95 days). (T0 + 95 days).

Advantages:

- A relatively short implementation period;
- Providing the financial recovery of SMART SA by eliminating the state of insolvency in the medium term so that SMART SA achieves operational profitability through the implementation of the Economic and Financial Restructuring Programme of the activity.

Disadvantages/Risks:

- Transelectrica will receive dividends in the next 5 years, only up to a maximum of 4.3 million lei, and therefore the amounts used to increase the share capital of SMART SA will not be recovered from SMART SA's profit during this period, even if the Economic and Financial Restructuring Programme of SMART SA activity (in the form approved by its shareholders) is successfully implemented;
- If the application of this scenario will result in the insolvency of SMART SA prior to the signing of the loan agreement, the duration of the entire process will inevitably be very delayed by the application of the insolvency procedure specific formalities, risking blocking SMART SA's activity.

Conclusion

In view of all of the above, we consider that the best way to solve the poor financial situation of SMART SA is the taking by Transelectrica of all the necessary measures for the

fast realisation of a capital injection for SMART SA amounting to 24 million lei, as a capital increase, acting as a basis for the implementation of the Economic and Financial Restructuring Programme of the activity and the constant and detailed monitoring of the way it is executed by the company's executive management as well as the implementation effects on SMART SA's financial results.

V. Proposal

The Articles of Association (in force) of the Company stipulate in Article 14 (3) the following: "3. In addition to the competencies and attributions referred to in paragraph (2) above or by law, the shareholders' general extraordinary assembly decides on the following issues:

- b) Setting-up or participation in the establishment of entities with distinct legal personality, with a patrimonial or non-patrimonial purpose, as well as the participation in the share capital of other companies; (...).

Under Article 14 (3) b) from the Company's Articles of Association, we submit to the Shareholders' General Extraordinary Assembly of the approval of the Company's participation in the increase of the share capital of the Company for Maintenance Services to the Electricity Transmission Grid Smart SA SA, subsidiary of the Company, with a cash contribution amounting to a maximum of 24,000,000 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,	UMA/DEMDERET	DJC,	DGCRIR,
Director Ana Iuliana DINU	Director Stefan TIBULIAC	Director Radu CERNOV	Director Bogdan TONCESCU
Florin Stanciu DSFTM manager			Dan Lazarescu, DGC manager