

To the:

Shareholders' General Assembly

Report of the Audit Committee

from the Supervisory Board of CNTEE Transelectrica SA (TEL) for 2020

with respect to the internal control systems and managing significant risks of the Company

The Supervisory Board (CS) has the essential role to permanently control the manner in which the Directorate manages the Company, and the role to verify the activities performed in the name and on behalf of the Company. Therefore the CS is entitled and has the duty to establish the control and verification modes which it considers necessary in view of performing its supervisory and reporting actions with respect to the activities developed by shareholders during reunions of the Shareholders' general assembly (AGA).

The Audit Committee of the Supervisory Board (CS) of CNTEE Transelectrica SA, constituted according to the Articles of Association of CNTEE Transelectrica SA, updated on December 21, 2020 by HAGEA no. 12/21.12.2020, has developed activities in accordance with applicable legal provisions.

Audit Committee members are nominated from among the CS members (who in their turn are appointed by AGA). Its current membership is the following: Jean - Valentin COMĂNESCU – chairman, Adrian GOICEA - member, Luiza POPESCU - member, Ciprian Constantin DUMITRU – member, Mircea Cristian STAIU – member, Oleg BURLACU – member, Mihaela POPESCU - member.

All seven members of the Supervisory Board filled in and submitted statements of independence.

Throughout 2020, the Audit Committee, having gathered for 4 plenary meetings, analysed the financial and managerial reporting, the financial plan and the elaboration of the annual stand-alone and consolidated financial statements, namely the data and information included in the following documents were analysed and verified:

- Annual investment programme of CNTEE Transelectrica SA for 2020 and the investment expenses in 2021-2022;
- The Company's 2020 Income and Expense Budget, and the estimations for 2021 and 2022;
- Achieving the 2019 Plan of audit missions and the implementation stage of the recommendations following the 2019 audit missions;
- Plan of public internal audit missions 2020;
- Stand-alone preliminary financial statements on the date and for the financial year ended in December 2019 (non-audited);
- Stand-alone and consolidated Financial Statements for the financial year ended December 31, 2019;
- The financial auditor's report on the Financial Statements concluded on December 31, 2019;
- The annual report on the 2019 consolidated financial statements of Transelectrica;
- The Directorate's Annual report about 2019 Company activities carried on, elaborated in accordance with the provisions of article 63 Law 24/ 2017 on the issuers of financial instruments and market operations and Regulation 5/2018 on financial instruments issuers and market operations of the Financial Supervisory Authority;
- Stand-alone interim simplified financial statements on the date and for the three months' period ended on 31 March 2020;

- Stand-alone simplified financial statements of CNTEE Transelectrica SA on the date and for the 6 months' period ended on 30 June 2020;
- Report of semester I 2020 on the economic-financial activity of CNTEE Transelectrica SA (elaborated according to the capital market requirements);
- The situation of the public internal audit missions carried out in 2020;
- Simplified separate financial statements as of the date and for the 9-month period ended September 30, 2020;
- Quarterly report (ASF) with respect to the economic-financial activity of CNTEE Transelectrica SA elaborated according to the capital market requirements as of 30.09.2020.

During these meetings Audit Committee members of the CS have acknowledged the following documents

- The Directorate's Activity report pertaining to quarter IV 2019;
- Report of Q IV and of January – December 2019, elaborated as per the capital market requirements;
- Estimated economic situation in the first two months of 2020;
- The independent auditor's Report for the year ended on 31 December 2019;
- Distribution of net profit on 31.12.2019;
- Sustainability Report of 2019;
- Non-financial consolidated report, 2019;
- The Directorate's Activity report with respect to the quarterly results from quarter I of 2020 (elaborated according to the provisions of OUG 109/2011);
- Quarterly report with respect to the economic-financial activity of CNTEE Transelectrica SA in quarter I of 2020 (elaborated according to the capital market requirements);
- The Directorate's Activity report with respect to the quarterly results in quarter II of 2020 (elaborated according to the provisions of OUG 109/2011);
- The Directorate's Activity report with respect to the quarterly results in quarter III of 2020 (elaborated according to the provisions of OUG 109/2011);
- Report regarding the 2019 Public Internal Audit activities developed within TEL and in its subsidiaries as well.

At the same time, in 2020, the Audit Committee of the Supervisory Board participated to the elaboration and finalisation of:

- The 2019 Audit Committee Report regarding the internal control system and management of significant risks within TEL, elaborated according to the provisions from the Corporate Governance Code of the Bucharest Stock Exchange (material of AGOA at its reunion on 28.04.2020);
- Report of semester II 2020 of the CS about administration activities, elaborated according to OUG 109/2011, submitted to shareholders gathered in ordinary reunion on 28.09.2020;

Throughout 2020, the Audit Committee has been informed about the 2020 Action Plan of (internal) audit and was communicated all the Audit reports elaborated in 2020.

Further to what has been provided above, we submit to shareholders brief information about the internal control system and management of significant risks within the Company, detailed as follows:

1. Report regarding the 2020 activities developed by the Public Internal Audit (API) structure within CNTEE Transelectrica SA and in its subsidiaries

Public internal audit activities of the API structure from CNTEE Transelectrica SA were developed in 2020 in compliance with the minimum reporting requirements asked by UCAAPI (**Central Harmonisation Unit for Public Internal Audit**) under the standard format of the Annual report pertaining to 2020.

1.1. Functioning of the Public Internal Audit

- ❖ At CNTEE TRANSELECTRICA SA level the established public internal audit structure is functional.

- ❖ In the five subsidiaries that established public internal audit, the function of the public internal audit has the following characteristics:
 - In four entities where the public internal audit functions:
 - In three entities (SMART, OPCOM, TELETRANS) it is by their own structure;
 - In one entity (FORMENERG) by means of the superior body;
 - In one entity (ICEMENERG SERVICE) the public internal audit does not function, although it has been established by means of the superior body; the reason is that the company ICEMENERG SERVICE is in bankruptcy proceedings.

The public internal audit functions by own structure in all three subsidiaries that established public internal audit by own structure. Thus the three subsidiaries are obliged to issue and communicate to CNTEE Transelectrica SA the Annual activity report regarding public internal audit functions. Some of the information they provided is found in the contents of this report.

1.2. Independence of the public internal audit structure¹

Independence is the attribute of public internal audit functions while objectivity is the prerogative of public internal auditors. Therefore the observed criteria are as follows:

- ❖ **To maintain the independence of the public internal audit structure:**
 - ✓ The public internal audit function should report directly to the organisation's top management;
 - ✓ The appointment and recalling of management for the public internal audit function and public internal auditors should be subject to endorsement according to legal terms.
- ❖ **To maintain the objectivity of public internal auditors:**
 - ✓ Public internal auditors should not be involved in activities they might subsequently audit;
 - ✓ Public internal auditors should declare their independence upon the public internal audit and assessment missions performed.

1.3. Objectivity of internal auditors

❖ In CNTEE Transelectrica SA

In 2020, the Public Internal Audit structure was not involved in exercising auditable activities. At the same time in 2020 all internal auditors filled in the "Statement of independence" for each public internal audit mission they participated to. No problems have been ascertained after filling in these declarations.

❖ In the subsidiaries of CNTEE Transelectrica SA

The following information resulted from the annual activity reports issued by three functional public internal audit structures:

- ✓ With respect to the public internal auditors' involvement in the exercise of auditable activities: in 2020 in all three entities internal auditors have not been involved in exercising auditable activities;
- ✓ With respect to filling in the declaration of independence: in all three entities internal auditors have filled in the statements of independence in 2020.

1.4. Providing the methodological and procedural framework

The methodological and procedural framework of public internal audit activities refers to aspects likely to provide good development of such activities in the light of applicable methodologies and procedures, taking into account as well the

¹ These requirements are found in the current legal basis, namely Law no. 672/2002, republished with later amendments and additions and GD no. 1086/2013. Similar provisions are featured in the international practice of internal audit stipulated in the International Standards of Professional Practice in Internal Audit (IPPF) issued by the Institute of Internal Auditors (see Standards 1100 to 1130).

application and observance of the public internal auditor's ethical conduct code. As far as such aspects are concerned, the public internal audit activity was regulated beginning with 2003, besides the known primary legislation, by OMFP 38/2003 as well approving the General norms regarding the exercise of public internal audit activities.

In 2013, after amending and republishing the Law on public internal audit, HG 1086/2013 was issued approving the General norms on the exercise of public internal audit activities. It provided several amendments and improvements in the old version of the general norms. Both general norm versions provided issuance of one's own public internal audit norms.

With reference to setting procedures for activities of the public internal audit structure, they are also subject to issuing system or operational procedures, as appropriate. The concept of procedure is used in this report with the meaning provided in OSGG 600/2018 approving the Code of internal managerial control in public entities. Taking into account this, public internal audit structures should analyse and decide how many of the performed activities have to be under procedure (which means issuing written procedure for such activity). In this context the degree of procedure issuance can vary from one entity to another, depending on the professional judgement applied. Similarly, in case of activities that can have procedures one will establish what is the issuance degree of procedures. Naturally the target is 100%, and this score is followed for as close a proximity as possible

1.5. Issuance of one's own written norms and procedures specific to public internal audit activities

❖ In CNTEE Transelectrica SA:

Within CNTEE Transelectrica SA, its own norms were drawn up and approved by the hierarchically superior body. In the public internal audit structure within the Company, an activity has been identified, namely that of "public internal audit", which can be carried out by procedure. For this activity, an own internal procedure was issued, which was updated during 2020. All stages in the conduct of public internal audit missions, from their planning to monitoring and reporting the implementation of the recommendations, are provided in this procedure's content. A written procedure was issued for an activity identified to be carried out by procedure, which represents a 100% degree of issuance of procedures.

❖ In the subsidiaries of CNTEE Transelectrica SA

The three subsidiaries that set up the public internal audit function through their own structure received the agreement of CNTEE Transelectrica SA for issuing their own norms. Therefore, they drafted their own norms which were endorsed by CNTEE Transelectrica SA.

In the public internal audit structures within CNTEE Transelectrica SA subsidiaries, six activities were identified (four within OPCOM subsidiary and one activity within the other two subsidiaries that issued annual activity reports). Of these, six activities were established as being carried out by procedure, which represents 100%. They are the following:

- SMART subsidiary – Public internal audit.
- Four activities were identified within OPCOM subsidiary, namely: "Elaboration and updating of Methodological Norms specific to the public internal audit activity and of the Internal Audit Charter within OPCOM SA"; "Elaboration of the multiannual and annual public internal audit plan within OPCOM SA"; "Carrying out public internal audit missions in order to provide assurance and advisory services within OPCOM SA"; "Periodically reporting to interested parties/entities on the public internal audit activity within OPCOM SA".
- Within TELETRANS subsidiary - Public internal audit activity with the following activities: "Organising the internal audit activity"; "Appointment/dismissal of the head of CAI - Teletrans and of the internal auditors"; "Conducting the internal audit"; "Ensuring and improving the quality of internal audit"; "Planning the public internal audit activity"; "Methodology for conducting a regularity/compliance public internal audit mission"; "Conducting a regularity/compliance public internal audit mission"; "Conducting internal performance audit missions"; "Conducting

internal system audit missions"; "Counseling mission. Conducting formalised counseling missions"; "Reporting the public internal audit activity. Annual internal audit report".

1.6. Providing and improving the quality of public internal audit activities

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

Based on PAIC², conclusions with respect to the quality of public internal audit activities that lead to making recommendations in order to implement proper improvements of this activity, which should enable assessment of:

- ✓ Compliance with the applicable legal base;
- ✓ Contribution of the public internal audit to the governance, risk management and organisational control processes;
- ✓ Full coverage of the auditable domain;
- ✓ Observance of the laws, regulations and procedures which the public internal audit activity should observe;
- ✓ Risks influencing the function of the public internal audit.

PAIC imposes a systematic disciplinary approach of periodical self-assessment, including a method to make periodical self-evaluation for each intermediary year in-between external appraisals.

A fully functional PAIC exercises permanent monitoring of public internal audit activities and periodical self-evaluation thereof in order to provide compliance with the applicable legal and procedural framework. By means of such process external assessment should actually become an opportunity to obtain new ideas from the evaluator or from the evaluation team with respect to improvement modes for the general quality, efficiency and effectiveness of public internal audits.

❖ In CNTEE Transelectrica SA

The public internal audit structure has issued the PAIC. The issued PAIC is periodically updated. The last document update was performed on 11.01.2018.

❖ In the subsidiaries of CNTEE Transelectrica SA

From the annual activity reports issued the following information was obtained: all three subsidiaries have elaborated and updated their PAIC.

1.6.2. External evaluation

Complementary to the PAIC, the quality of the public internal audit function can be improved by means of external evaluations. They should be carried out every five years according to the requirements of national legislation, but also according to the international internal audit standards issued by the Internal Institute of Auditors (IIA). The objective of external evaluation is to assess public internal audit activities in terms of their conformity with the internal audit definition, with the requirements of the ethical conduct code and the provisions of national legislation in this domain. External evaluations can also focus on identifying opportunities to improve the public internal audit function, providing suggestions to improve the effectiveness of such activities and promoting ideas to enhance the image and credibility of the public internal audit function.

² In accordance with the provisions of point 2.3.7. from annex no. 1 to GD no. 1086/2013, within the public internal audit structure, a Quality Insurance and Improvement Programme (PAIC) is elaborated in every respect of the public internal audit, which would allow a continuous control of its effectiveness. The programme meant to ensure and improve the quality of the public internal audit activity must ensure that the public internal audit activity is carried out in accordance with the rules, instructions and the Code of Ethical Conduct of the public internal auditor and contribute to the public internal audit's improvement.

❖ In CNTEE Transelectrica SA

In 2020, the Public Internal Audit structure has not been evaluated by Romania's Court of Audit, the hierarchically superior body (OIS) or by other entities. The Public Internal Audit within CNTEE Transelectrica has not been evaluated by any of the fore-mentioned structures in the last four years before the reporting one.

❖ In the subsidiaries of CNTEE Transelectrica SA

Following the annual activity reports issued by the functional public internal audit structures of the subsidiaries, in 2020: SMART was evaluated by the Romania's Court of Audit. In the last four years, all three subsidiaries have been evaluated by the higher hierarchical body, the Court of Audit, or other entities.

1.7. Planning the public internal audit activity

The annual plan was established based on the approved "Multiannual public internal audit plan of CNTEE Transelectrica SA" and the risk analysis, taking into account certain priorities arising from previous audit missions, or requests from Directorate members.

The 2020 plan of public internal audit missions, approved by the Directorate, included a number of 27 assurance missions, of which:

- ✚ 24 in territorial transmission units and
- ✚ 3 in the Company's Executive branch;

1.8. Public internal audit activities performed in the reported year

Regarding the public internal audit, its planning is performed multi-yearly, over a period of three years, but also annually. Given the fact that the risks associated with the activities are generated by the economic and social environment in which the activity is carried out, there is a need for the risks to be periodically reassessed, in order for them to be under observation. In this context, the multi-annual public internal audit plan needs to be annually updated, and this should be the basis for the annual public internal audit plan's development.

❖ In CNTEE Transelectrica SA

Taking into account the very great number and diversity of activities developed in the Company, compared to the human resources employed by the API structure and the annual calendar available for public internal audit missions, as well as the need to carry out evaluation missions in the subsidiaries, the multiannual plan was elaborated for five years. The plan is reviewed whenever necessary in order to make certain it further contains relevant updated information. CNTEE Transelectrica SA's Multiannual public internal audit plan was elaborated and approved for 2017 – 2021.

The public internal audit is exercised on all the activities carried out in an entity, including on the activities of the subordinated entities³. Consequently the internal auditors within API had to exercise their public internal audit activity over the organisational structures of the Company's Executive structure, the eight Territorial Transmission Units (Transmission Branches until 10.06.2020) and the subsidiaries where there is no internal audit structure. Audit in subsidiaries OPCOM, SMART and TELETRANS is performed through their own structures, following which the API personnel of CNTEE Transelectrica SA should evaluate them.

With a view to break-down audited activities by years the hierarchy of organisational entities was obtained depending on their importance and contribution to achieving the main objectives of CNTEE Transelectrica SA. Activities were identified and classified hierarchically within each structure according to their detailed organisation and functioning regulations, also considering the interviews with the managerial boards of these entities. Such hierarchical classification took also into account the risk analysis and assessment as associated to each activity. Activities were broken-down by

³ In accordance with the provisions of Law no. 672/2002 republished, with later amendments and additions.

years in accordance with International Audit Standards and the good practice established in this domain, taking as much as possible into account a balanced distribution. Thus, every year high risk activities will be audited predominantly, as well as those with average and low risks associated to them.

The risk analysis criteria used for annual and multiannual planning are as follows:

- ✓ Likelihood of risk occurrence;
- ✓ Seriousness of event consequences (impact level).

In 2020, a series of **27 insurance missions** was carried on. Taking into account several domains can be dwelt with during an insurance mission, it was thus ascertained:

- The budgetary domain has not been addressed by any insurance mission;
- 8 insurance missions approached the financial-accounting domain;
- Public procurements have not been addressed by any insurance mission;
- Human resources have not been addressed by any insurance mission;
- IT has not been addressed by any insurance mission;
- The juridical domain was not approached by any insurance mission;
- Community funds were not included in any insurance mission;
- 19 insurance missions focussed on the entity specific functions;
- SCM/SCIM activities were not addressed by any insurance mission;
- Other domains were not approached by any insurance mission.

During the public internal audit missions developed in 2020 no irregularities have been ascertained.

In this context, **in 2020** a number of 150 recommendations were supervised, with the following results:

- 78 implemented recommendations, of which:
 - 77 recommendations implemented within the established term;
 - one recommendation implemented after the established term;
- 25 partially implemented recommendations (under implementation), of which:
 - 14 recommendations whose set implementation term was not exceeded;
 - 11 recommendations with exceeded implementation term;
- 47 non-implemented recommendations, of which:
 - 46 recommendations whose established implementation term was not exceeded;
 - One recommendation with exceeded implementation term.

Domain	Number of implemented recommendations		Number of partially implemented recommendations		Number of non-implemented recommendations	
	During the established term	After the established term	Whose established term was not exceeded	With established term exceeded	Whose established term was not exceeded	With established term exceeded
Budgetary	0	0	0	0	0	0
Financial-accounting	23	0	5	4	5	0
Public procurement	1	0	2	0	0	0
Human resources	12	0	0	3	0	0
Information technology	0	1	0	0	1	0
Juridical	0	0	0	0	0	0
Community funds	0	0	0	0	0	0
Entity-specific functions	40	0	5	3	40	0
SCM/SCIM	0	0	2	0	0	0
Other domains	1	0	0	1	0	1
TOTAL 1	77	1	14	11	46	1
TOTAL 2	78		25		47	

No formalised counselling missions were conducted within CNTEE Transelectrica SA. Nevertheless, the Public Internal Audit structure provided counselling throughout the year to all those requesting it. Thus during the performed missions explanations were provided with respect to various legal provisions, or applicable operational procedures.

❖ In the subsidiaries of CNTEE Transelectrica SA

A number of **8 insurance missions** were performed. Taking into account several domains can be dwelt with during an insurance mission, it was thus ascertained:

- The budgetary domain has not been addressed by any insurance mission;
- Two insurance missions approached the financial-accounting domain;
- Public procurements were not included in any insurance mission;
- Human resources were addressed by one insurance mission;
- IT was not approached by any insurance mission;
- The juridical domain was not approached by any insurance mission;
- Community funds were not included in any insurance mission;
- Entity specific functions were addressed by two insurance missions;
- SCM/SCIM activities were dwelt with by two insurance mission;
- One insurance mission approached other domains.

No irregularities have been ascertained.

During the public internal audit missions developed in 2020 **no un-adopted recommendations have been ascertained⁴**.

As regards **supervising the implementation of recommendations**, it refers to the recommendations the public internal audit structure made in the previous insurance missions and is obliged to watch the implementation thereof.

In this context, **in 2020** a number of 104 recommendations were supervised, with the following results:

- 38 recommendations were implemented within the established term;
- 10 recommendations were partially implemented (under implementation) whose established implementation term has not been exceeded;
- 56 recommendations were not implemented however their established implementation term has not been exceeded.

Domain	Number of recommendations implemented in all subordinated entities		Number of recommendations partially implemented in all subordinated entities		Number of recommendations not implemented in all subordinated entities	
	Within the established term	After the established term	Whose established term has not been exceeded	Whose term has been exceeded	Whose established term has not been exceeded	Whose term has been exceeded
Budgetary	0	0	0	0	0	0
Financial-accounting	9	0	0	0	4	0
Public procurement	1	0	0	0	14	0
Human resources	0	0	0	0	5	0
Information technology	0	0	0	0	0	0
Juridical	7	0	0	0	0	0
Community funds	0	0	0	0	0	0
Entity-specific functions	4	0	0	0	0	0

⁴ the recommendations that were included in the final public internal audit report, but for which the head of the subordinated public entity, under coordination or under authority, did not give his/her opinion in accordance with the provisions of point 6.6.6. from GD no. 1086/2013. In accordance with the applicable legislation in force, these recommendations must be brought to the attention of the Principal Authorising Officer, together with the consequences of their non-implementation.

SCM/SCIM	3	0	7	0	24	0
Other domains	14	0	3	0	9	0
TOTAL 1	38	0	10	0	56	0
TOTAL 2	38		10		56	

In 2020, an advisory mission was carried out regarding the implementation of the internal managerial control system applicable within OPCOM SA. It was planned and completed on time. Within it were issued three proposals for solutions to improve the Management Control System (identified by applying the Quality Management System) implemented within OPCOM SA. During 2020 no counseling missions were carried out at SMART and TELETRANS subsidiaries.

1.9. Evaluation missions of internal audit activities

❖ In CNTEE Transelectrica SA

In 2020 no evaluation mission was carried out.

❖ In the subsidiaries of CNTEE Transelectrica SA – *Not applicable*

1.10. Conclusions

❖ In CNTEE Transelectrica SA

The public internal audit by means of the conducted activities adds value both by assessing the internal control system and by analysis of risks associated to auditable activities, as well as by the recommendations included in the elaborated report transmitted in view of reaching the Company's objectives. Such recommendations have determined the audited structures to improve their activities and the internal control system, so that significant progress could be noticed from one audit to another.

Monitoring activities are oriented towards plus value created by the public internal audit while supporting the achievement of Company objectives. Taking into account the involvement of personnel from audited structures and of their leaders' in the implementation of issued recommendations one can state the public internal audit has sustained the personnel by reviewing the mode of operation and applying legal provisions, a better organisation of activities and permanent collaboration in view of turning works efficient.

The implementation of recommendations provided during all public internal audit missions developed throughout 2020 targeted and led to:

- ✚ More efficient knowledge and application of legislation, procedures and instructions of audited activities;
- ✚ Detecting and correcting deficiencies punishable by external control bodies;
- ✚ Eliminating the negative aspects from audited activities in order to mitigate risk occurrence conditions;
- ✚ A greater attention paid to the application of regulations in force regarding the implementation of protocol within the the Company, to the event planning by CNTEE Transelectrica SA and to the Company specialists' participation in the events organised by other entities, as well as to foreign business travel;
- ✚ Improving the mode of operation as regard the coordination and elaboration of the Company's Annual Study and Research Programme, technical-economic documentation, instructions and procedures;
- ✚ A greater attention paid to the application of internal regulations regarding the analysis and acceptance of documentation, to the organisation and conduct of CTES meetings, as well as to the issuance of CTES opinions and the monitoring of the observations' implementation;
- ✚ Submitting the documents in which patrimonial operations are recorded to the preventive financial control visa, before becoming legal acts;
- ✚ Improving the operational elaboration of the delivery receipt regarding the waste/material goods to the warehouse and sending the documents for registration in the operative and accounting books of the material goods;

- ✚ Taking practical measures to reduce stocks with no movement and with slow movement and to continue the recovery action;
- ✚ Greater care not to include in the inventory committees the accountants who keep records of the items in question;
- ✚ Training the works/project coordinators regarding the observance of the legal term provided for the issuance of the ascertaining document regarding the manner of fulfilling contractual obligations;
- ✚ Contract managers training the employees of centers/substations to clearly write their name, to sign and apply the job stamp on the documents attached to the invoices, in order to confirm the services provided/ the works performed in the substations/centers;
- ✚ A greater attention paid to the acceptance and settlement of contracts carried out by SMSU: they should be based on the records provided for in all contract documents;
- ✚ The Maintenance Service requesting the elaboration of explanatory notes for all works proposed in the maintenance programmes (PM) and supporting notes for all revisions/rectifications of the PM, according to the operational procedures in force;
- ✚ Enhancing communication between Company entities;
- ✚ Improving the internal control system of audited entities and activities.

❖ In the subsidiaries of CNTEE Transelectrica SA

The internal audit activity added value to SMART by the recommendations made through the missions carried out. These recommendations determined the audited structures to improve their activities, their internal communication and the internal managerial control system. Thus, from one audit to another, progress could be noticed in terms of revision of internal procedures and norms, updating them to the latest legislative changes focusing on adaptation and practical application. In the opinion of both the auditor and the company's management, the internal control's quality improved, by promoting the achievement of its objectives, intensifying control, protecting the company's assets and recommending improvements based on risk analysis and a systematic approach.

In 2020, within OPCOM SA, following the decisions taken by the superior management of the company, the internal audit structure became functional; within the Internal Audit Office two full-time staff were employed, according to the legal provisions in force. It should be noted that one of the Internal Audit Office's employees has minimal experience in public internal audit, this being considered the weak point of the internal audit function within this entity. The activities carried out in the structure responsible for the public internal audit follow a procedure and comply with the methodology of the public internal audit. Also, in 2020, specific Activity Norms and the Internal Audit Charter were issued within OPCOM SA, documents endorsed by the hierarchically superior entity, and approved by the company's director general. The Quality Insurance and Improvement Programme (PAIC) was issued and subsequently updated, being approved by the Head of the Internal Audit Office. The activity carried out in 2020 within the structure responsible for the public internal audit was planned, according to the legal provisions. The annual public internal audit plan for 2020 has been fully implemented, including the two assurance missions and the scheduled advisory mission. Within the Internal Audit Office, the minimum number of training days provided by the regulatory framework was achieved, given that the staff was hired during 2020.

Within TELETRANS, through the missions carried out by the internal audit structure, the aim was to make recommendations for removing dysfunctions and improving the activities of audited structures, so that their efficiency and effectiveness increase, which will ultimately contribute to achieving the objectives set by the company.

Management's awareness of the need to strengthen internal audit was achieved through the approval with no objections of the reports of internal audit missions carried out during 2020.

1.11. Proposals to improve the public internal audit activities

❖ In CNTEE Transelectrica SA

- ✚ Continuing the process of consolidating the function of internal auditor within CNTEE Transelectrica SA in order to improve transparency, efficient use of funds and public patrimony.
- ✚ Organising meetings or periodical discussions of internal auditors with the Company's management, so as to operatively clarify certain problems occurred and the top management's expectations with respect to public internal audit activities.
- ✚ Providing salary to internal auditors in accordance with the hierarchy of this function within the company's remuneration system.
- ✚ Exchange of experience with the other public internal audit structures of the energy sector and with international organisations or auditors from European Union countries.
- ✚ Providing continuous, uniform training at qualitative standards as necessary to obtain national certification of internal auditors.
- ✚ Permanent cooperation in methodological and guiding terms between the public internal audit structure of the hierarchically superior level and API CNTEE Transelectrica SA.

❖ In the subsidiaries of CNTEE Transelectrica SA

The improvement of the internal audit activities will be based on the improvement of the activity through complex professional training programs on concrete fields of economics and forms of organisation, as well as a close collaboration with the Internal Audit structure within CNTEE Transelectrica SA.

OPCOM SA:

- ✚ The main action to improve public internal audit within the company refers to the increase of the professional capacity of human resources. Consequently, in 2021, the professional training for the staff of the Internal Audit Office will be taken into account, both by participating in accredited courses in public internal audit, and by self-training, by studying appropriate topics, approved by the Head of the Internal Audit Office, according to the Quality Insurance and Improvement Programme (PAIC).

TELETRANS:

- ✚ Maintaining proper professional training for internal auditors, which means participating to professional courses delivered by specialist trainers in this domain;
- ✚ Improving the internal audit activity targets the contents of the procedural framework and the development of permanent professional collaboration, in methodological and guidance terms, between the internal auditors of Co. TELETRANS SA and the auditors from the API structure of CNTEE Transelectrica SA.

2. Risk management in 2020

2.1. Organisational framework of risk management

In accordance with applicable legislation - SGG Order 600/2018 approving the Code of internal managerial control of public entities, in 2020 the Company's organisation and operation framework was consolidated as necessary to implement and develop the internal managerial control system. To this effect updates were made in:

- ✚ Operational procedure related to Management considering the the Company's new organisational and functional structure;
- ✚ The structure, attributions and responsibilities of the Company's Risk Management Team (EMRC); within the team is constituted the Risk Management and Control Group (GMCR); the Risk Management Team's chairman Company-wide is the Risk Management deputy chief inspector within the Department of Critical Infrastructures. To provide efficient risk management in all Company structures, the leaders of the Company's

organisational entities (units, divisions, departments, territorial transmission units) designated each a risk responsible person who is a member in the Company-wide Risk Management Team (EMRC);

- ✚ The structure, attributions and responsibilities of the Monitoring commission meant to implement the Internal / Managerial control system within the Company;
- ✚ *Organisation and operation regulation of the Monitoring commission for the Company's internal / managerial control;*
- ✚ The structure of the Technical Secretariat of the Monitoring commission to implement the Internal / Managerial control system (CM SCIM).

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

Risks associated to objectives and/or activities are identified and assessed by each organisational entity of the Company (unit, division, department, territorial transmission unit), in accordance with the elements from the *Risk register*; significant risks are centralised by the Department of Critical Infrastructures, Risk management, in the *Risk register of the Company*.

The Monitoring commission analyses and establishes the priority of significant risks, which might impact the achievement of Company objectives, by establishing the risk profile and the risk tolerance limit, every year.

The chairman of the Company's Risk Management Team is included in the Technical secretariat of the Monitoring commission. Using the *Risk register* of the Company, the chairman of the Risk Management Team proposes the risk profile and the risk tolerance limit, which are examined and endorsed at the Commission meeting and approved by the Company's Directorate.

Once with the *Risk register*, the leaders of Company's organisational entities transmit the control measures for significant risks to the Chairman of Risk Management Team, member in the Technical Secretariat of the Monitoring commission, that annually elaborates the *Implementation plan of control measures for significant risks*.

The plan is analysed by the Monitoring commission and approved by the Company's Directorate.

The Technical Secretariat of the Monitoring commission transmits the approved Plan of measures to the compartments responsible to manage significant risks in view of implementing it.

The Chairman of the Company's Risk Management Team, member in the Technical Secretariat of the Monitoring commission, elaborates an Information to the Company's Directorate based on *annual reports from the leaders of the Company's organisational entities regarding the development of risk management and performance monitoring operations within the organisational entity*.

Based on the received documentation, we present to our shareholders *the development of risk management process and performance monitoring operations within CNTEE Transelectrica SA in 2020*, as well as the analysis of the risks identified and managed within the organisational entities Company-wide.

Within CNTEE Transelectrica SA risks that might have substantial impact on the achievement / realisation of Company objectives are managed in accordance with activity specific operational procedures and in accordance with the *operational procedure on Risk Management*

The operational procedure on Risk Management aims at implementing a risk management process which *should facilitate achieving Company objectives* under economic, efficient and effective conditions. By observing the procedure, continuous improvement is provided for the development of risk management stages, namely identification, assessment, establishment of management strategy, monitoring the implementation of control measures and periodical reporting as follows:

- ✓ Identifying risks in close connection with activities associated to specific objectives, whose achievement might be influenced by risk occurrence; detecting the threats / vulnerabilities existent in current activities, which might lead to unachieved objectives;
- ✓ Risk assessment by estimating the occurrence likelihood, the impact over activities associated to objectives achievement in case it occurs; risk hierarchy and priority depending on risk tolerance;

- ✓ Establishing the risk management strategy (risk response) by identifying the best risk treatment methods, including also control measures; risk analysis and management depending on the risk tolerance limit approved;
- ✓ Monitoring the application of control measures and reviewing them according to the effectiveness of their results;
- ✓ Periodical reporting on risks is submitted whenever necessary or at least once a year, and in case risks persist, depending on the occurrence of new risks, the efficiency of approved control measures, revaluation of existent risks etc.

The procedure provides the personnel of CNTEE Transelectrica SA with a working instrument that facilitates risk management in methodical efficient manner with a view to achieve Company objectives. To this effect according to the procedure every year a risk management documentation is elaborated for those risks that might influence the activity of CNTEE Transelectrica SA, which also contains a description of the manner in which control measures are established, implemented and monitored meant to limit the possible threats and consequences produced in case of risk occurrence. The procedure provides for each organisational entity the obligation to systematically analyse, at least once a year, the risks pertaining to the performance of its activities and to elaborate proper plans in view of limiting the possible risk effects; the management of each organisational entity nominates a risk responsible person who sees to the annual elaboration of documentations for the Risk register, Plan of measures, Annual report, and fills in the risk supervision forms every time he/she considers necessary and executes the risk alert forms whenever a new risk occurs.

In 2020, the main documents regarding risk management elaborated in the Company to facilitate achieving Company objectives under economic, efficient and effective conditions and complying with legal requirements have been:

- ✓ *2020 Risk register for significant risks identified in CNTEE Transelectrica SA;*
- ✓ *INFORMATION regarding the development of risk management and performance monitoring processes in CNTEE Transelectrica SA in 2019, endorsed by the Chairman of the Monitoring commission, and approved by the Directorate;*
- ✓ *2020 Risk register, Significant Risks: important and critical company-wide – prioritisation;*
- ✓ *2020 Implementation plan of control measures, for significant risks Company-wide;*

In accordance with the *Organisation and Function Regulation of the Monitoring commission for internal managerial control* and the provisions of Risk management Procedure, the Chairman of the Company's Risk Management Team initiated the elaboration of annual reporting Company-wide, requesting from the management of organisational entities the elaborated and approved documentations for such entity (unit, division, department, territorial transmission unit). According to the elaborated and approved documentations in the organisational entity, the following documents were drawn up Company-wide:

- ✓ *2021 Risk register, CNTEE Transelectrica SA for the Company's significant risks;*
- ✓ *2021 Implementation plan of control measures for the Company's significant risks*

which, together with the Report on the elaboration of the "Risk register of CNTEE Transelectrica SA 2021" and the "2021 Implementation plan of control measures for Company-wide significant risks", were subject to the Directorate's approval.

2.2. Analysis of risks associated to activities in 2020

During the Company's Risk register update the risk exposure was ascertained to be maintained at the level of last year, and residual risks also have kept at similar level in comparison with the previous assessment.

Risks identified during precedent years are properly kept under control; however the risk exposures of investments and procurements maintain high.

Some risks have been reformulated, in order to better correlate them with Transelectrica's objectives and the documents approved Company-wide.

2.2.1. New risks identified in 2020 within organisational entities:

The responsible person for personal data protection in the Company has identified specific data security risks in terms of Personal Data Protection, in accordance with applicable standards, possible risks which might alter the integrity, security or confidentiality of personal information. The actions targeted to identify risks specific to data security in terms of Personal Data Protection have been implemented when the *operational procedure - Risk management* has been reviewed.

From among the **risks that occurred** in 2020 mention can be made of:

- Investment risk: the difficult financial circumstances subsidiary SMART is faced with was included in many information materials for the Directorate of Transelectrica. The subsidiaries' financial activity is being monitored and each quarter an *Activity report of subsidiaries* is being delivered;
- Risk of not collecting the amounts of money as a result of enforcing the securities that guaranteed the down payments received by contractors under investment projects;
- A burdened procurement process, which leads to incomplete achievement of the RET Maintenance Plan;
- A burdened procurement process, which leads to lower quantitative or qualitative activities under the Annual investment programme.

2.2.2. The main risks identified in CNTEE Transelectrica SA

➤ Technical and operational risks

- Deficiencies when scheduling SEN operation and congestion management;
- Breakdowns of telecommunication services for SEN operation;
- Failures to installations and equipment;
- Malfunctions in the Balancing market operation;
- Non-execution or delays in achieving the Annual investment programme;
- Malfunctions of the systems and platforms used by the operative management, communications and telecommunications;
- Unavailability of collection, memorising and accessing the data from electricity quality metering;
- Incompliance with legal requirements regarding dismantle;
- The annual Investments / Maintenance / Procurement programmes are achieved below the scheduled qualitative and quantitative levels;
- Delays in procuring services necessary to provide the security and intervention stocks of Transelectrica SA;
- Improper connection of users to electricity networks of public interest;
- Incompliance with regulated or contractual terms, especially determined by difficulties to obtain ownership rights over lands;
- Incomplete achievement of the Annual Procurement Programme and disturbed procurement procedures, of major impact over investment activities;
- Risks related to Energy markets: counterpart risk, non-collection of receivables, forecast risk.

➤ Financial risks

- Interest risk,
- Foreign currency,
- Provisions from financing agreements,
- Liquidity risk,
- Credit risk,
- Deterioration of the Company's credit rating,
- Price risk, because of the energy market's unpredictability, which might lead to cost rises associated to CPT;

➤ Strategic risks

- Tariff (price) risk associated to the regulatory framework,
- Forecast risk,
- Volume risk,
- Risk of network codes implementation.
- **Legal risks**
 - licences,
 - contractual risks, including fees from authorities or compensating payments.
- **Security risks**
 - Breaches in the security and protection of ICN/ICE critical infrastructures and in the activity continuity in emergency circumstances,
 - The security of classified information is not insured,
 - There is no security or protection for cyber infrastructures.
- **Riscuri legate de personal și de mediu**
 - Difficulties / deficiencies of recruitment, professional training and personnel motivation,
 - Non- or incomplete achievement of the Annual professional training programme,
 - Improper personnel recruitment,
 - Impact over the personnel's health and security,
 - Environmental pollution, improper waste management,
 - Human errors - caused by manual operation, repeatability of operations; to limit the effects of such human risks additional verifications are suggested and insurance concluded in order to externalise risk;
 - The increased incidence of sickness in the current circumstances, caused by the evolution of SARS CoV 2, has led to the organisation of a small number of courses and consequently to the participation of a reduced number of staff in training programs;
 - In the present context, human risk is a risk determined by how the spread of SARS CoV 2 is evolving, by human errors, errors in human-computer interaction, repeatability of operations. When it comes to limiting the spread of the virus, the provisions and recommendations contained in Law 55/2020 as well as the Decisions issued by the Company's Directorate were taken into account. Regarding the human risk determined by human errors, in order to limit the effects of human risk, additional verifications are suggested, using templates and dedicated software where possible and insurance concluded in order to externalise risk.

CNTEE Transelectrica SA's business continuity was not affected by the impact of the epidemiological context following the spread of COVID-19, although the pandemic generated by COVID-19 affected the entire territory of Romania where CNTEE Transelectrica facilities are located.

Whereas CNTEE Transelectrica SA's core activity, through the territorial transmission units and UNO-DEN, is to ensure the continuous operation and operational management of the National Power System (SEN), according to the quality, safety and efficiency norms provided by the RET Technical Code and the European and national regulations in force, particular attention was paid to the employees' safety and health, being treated as a matter of priority, as well as to the continuity of strategic functions for SEN, as a transmission system operator.

In 2020, in this delicate context with unfavorable circumstances generated by the pandemic, the activity was fully ensured and maintained, technical-organisational measures being established and applied in order to prevent, combat and limit the effects of COVID-19 spread. The legal provisions were applied to the letter and measures were taken to identify, isolate, monitor and report the discovered cases and activities were reorganised, so as to ensure business continuity and the support for the affected personnel.

2.2.3. Resulting risk profile and proposal to prioritise risks and tolerance limits

In the organisational entity (unit, division, department, territorial transmission unit) the exposure was assessed for each risk, both in terms of INHERENT risk (exposure to the risk relating to objectives achievement, in the absence of any action that might be taken to reduce its probability and/or impact), and of RESIDUAL risk (exposure to the risk relating to objectives achievement, which remains after establishing and implementing risk treatment measures), assessment included in the organisational entity's Risk register.

- The Risk Centraliser and Matrices include 128 risks identified in the EXECUTIVE branch, with the values of inherent and residual exposures, as follows:
 - Inherent risks: 65 low and 63 significant; and of the significant ones, 36 are average and 27 high.
 - Residual risks: 86 low and 42 significant; and of the significant ones, of which 37 average and 5 high.
- The Risk Centraliser and Matrices include 15 risks identified in the territorial transmission units (TTU) with the values of inherent and residual exposures, as follows:
 - Inherent risks: 5 low (4 in TTU Constanta and TTU Timisoara) and 10 significant, namely 11, of which one high risk in both TTU Constanta and TTU Timisoara.
 - Residual risks: 14 or 15 low, 1 significant (average), namely zero.

TTU Constanta and TTU Timisoara have assessed the risk of "Achievement of the Annual investment programme below the scheduled quantitative or qualitative levels" as providing HIGH exposure as inherent risk, and control measures were applied in the sense of diminishing its occurrence likelihood, thus becoming MEDIUM as residual risk.

2.3. Keeping risks under control; actions

- Actions established in order to keep risks under control in 2020 were included in the document *Implementation plan of control measures for significant risks*, elaborated in organisational entities. In accordance with such documents the *Implementation plan of control measures* was elaborated, the status of its application being supervised with guidance and control activities by the Risk Management and Control Group.
- The actions applied in order to keep risks under control in 2020 mainly diminished their occurrence probability and the risk impact compared to inherent risk levels.
- The risks that did occur have been treated in accordance with the adopted strategy, required by the circumstances that facilitated such risk occurrence.
- The risk management strategy, meaning: risk acceptance, risk monitoring, risk treatment to eliminate / diminish it to an acceptable level by measures, risk externalisation by means of: insurance, externalising the activity, other contracts with third parties, was established by each organisational entity (unit, division, department, territorial transmission unit) by detecting the most adequate feasible risk treatment actions and in accordance with its management responsibilities so as to register as low risk exposure values as possible in the given internal and external context.

Starting with March 2020, the documents that were drawn up and applied Company-wide, regarding the technical-organisational measures for preventing, combating and limiting the effects of COVID-19 spread are:

- ✓ Action plan regarding business continuity in case of crisis situations affecting labor force within CNTEE Transelectrica SA - Coronavirus pandemic;
- ✓ CNTEE Transelectrica SA Business continuity plan in case of a pandemic;
- ✓ Action plan regarding business continuity in case of crisis situations affecting labor force within CNTEE Transelectrica SA - Coronavirus pandemic – Implementation stage as of 30.03.2020;
- ✓ Information notice to the Supervisory Board on the measures imposed in the current epidemiological context to protect employees and reduce the risk of COVID – 19 infection;
- ✓ CNTEE „Transelectrica” SA Business continuity plan in case of a pandemic - Programme of Measures following the epidemic/pandemic generated by COVID - 19, affecting the health of CNTEE Transelectrica SA employees;

- ✓ Action plan regarding business continuity in case of crisis situations affecting labor force within CNTEE Transelectrica SA - Coronavirus pandemic – Stage on business continuity during the State of Alert – Prevention and control measures concerning SARS-CoV-2 spread (May 2020);
- ✓ Action plan regarding business continuity in case of crisis situations affecting labor force within CNTEE Transelectrica SA - Coronavirus pandemic – Stage on business continuity during the State of Alert – Prevention and control measures concerning SARS-CoV-2 spread (May 2020);
- ✓ Regulation on the measures to be applied within CNTEE Transelectrica SA during the state of alert in order to prevent and combat the effects of the COVID - 19 pandemic (December, 2020),
- ✓ Daily reporting, Saturdays, Sundays and public holidays included, during the State of Emergency and Alert, of the Centralised Report on SARS - CoV - 2 evolution within managed facilities to the Ministry of Internal Affairs - National Center for the Coordination of Critical Infrastructure Protection, using the APOLODOR Integrated Information System.

Preponderantly strategies consisted in:

- ✓ Risk treatment for its elimination / diminishing to an acceptable level by means of measures and
- ✓ Risk monitoring.

From among the internal control instruments use mention can be made of:

- ✓ Measures und the procurement / maintenance / investment / personnel professional training programmes;
- ✓ Elaborating procedures or reviewing them;
- ✓ Changes in the processual and structural organisation;
- ✓ Performance indicator attached to the objective;
- ✓ Redistributing the personnel;
- ✓ Constituting or updating databases.

In case some risks occur control measures have been identified as well as verifications for similar situations in order to prevent risk occurrences or possible new ones.

Control measures in organisational entities (unit, division, department, territorial transmission unit) have been fully implemented or under implementation.

For 2021 the actions established to keep risks under control are included in the document *2021 Implementation plan of control measures for Company-wide significant risks*, approved by the Directorate. It specified for every risk: causes, inherent risk estimation (probability and impact), preventive control measures - with dates and responsible people, consequences, control measures to limit consequences, with dates and responsible people, residual risk estimation (probability and impact), entities that manage the risk.

In 2020 risk management activities were carried out in proper manner in all the Company, fully observing in due time the legal requirements and internal regulations. However in case of major risks pertaining to delays in achieving the *Annual sectoral procurement programme* radical measures have to be identified and applied as well as making use of all legal levers that can increase the achievement degree of such programmes.

In terms of progress axes to turn efficient risk management actions the following were recommended:

- ✚ The foundation of activities / projects proposed to be included into annual investment, procurement and maintenance programmes should also include risk management aspects: what Company risks are diminished and estimation of effects with respect to changing the impact and occurrence probability of such risks; these aspects will be also included into the reports pertaining to the achievement of annual programmes;
- ✚ Reports (syntheses) with respect to the manner in which annual investment, procurement and maintenance programmes have been achieved should be transmitted for information to the Chairman of the Risk Management Team from the Company as well, in order to supervise the mode in which risks are kept under control;

- + Identification of interdependences: what other organisational entities can induce risks into the activities of one's own organisational entity; what other organisational entities might be impacted in case certain risks occur in the activities of an OE;
- + Correlation of the operational procedure and other internal regulations and the use of a unitary terminology, in order to be in accordance with the current way of working and the legislation in force.

All the transmitted proposals have been implemented.

Audit Committee of the Supervisory Board, consisting of:

Chairman of the Audit Committee	- Jean - Valentin COMĂNESCU
Member of the Audit Committee	- Adrian GOICEA
Member of the Audit Committee	- Luiza POPESCU
Member of the Audit Committee	- Ciprian Constantin DUMITRU
Member of the Audit Committee	- Mihaela POPESCU
Member of the Audit Committee	- Mircea Cristian STAICU
Member of the Audit Committee	- Oleg BURLACU