Transelectrica®
Societate Administrată în Sistem Dualist

Compania Naţională de Transport al Energiei Electrice
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To the,

SHARHODLERS' GENERAL ASSEMBLY OF CNTEE TRANSELECTRICA SA

NOTE
regarding approval by the Shareholders' General Assembly to finance the Company's subsidiaries (cash pooling) by contracting a current credit amounting to 200 mill Lei by the Company

1. Generalities; Premise

The pandemic context in which the national economy was found in the last two years influenced the Company's financial profitability, namely it reduced it by about 10% (semester I 2021 vs semester I 2020). At the same time the general development of electricity prices in Europe and nation-wide, as determined by the strong post-lockdown recovery worldwide (which rapidly increased the demand for energy resources, against the background of insufficient gas resources etc.) and the massive price growth of carbon certificates as a result of EU's measures to expedite energy transition had significant impact over the expenses from electricity transactions to cover CPT, which grew 55% in comparison with the first semester of 2020.

Against this background of such price rises ANRE proposes a temporary tariff freeze in the regulated part of the electricity sector for the 2021-2022 cold season (1 November 2021-31 March 2022). The impact of this measure is assessed in the first place in terms of Transelectrica's capacity to financially sustain essential activities, which are prerequisites to provide licence activities. Implementing this proposal will place the Company's financial parameters under major additional pressure, added to the existent one determined by the development of the wholesale electricity price in correlation with the limitative provisions from the methodology establishing the transmission tariff, which lead to slow recovery of higher operational costs. The impact of implementing ANRE's proposal will occur in the short run in the first quarter of 2022, which means the end of the suspended methodology application (31 March 2022) by the significant deterioration of liquidity flows and implicitly by temporary impact over the payment capacity of investment and current commitments. In this respect the need will occur to resort to external sources to finance the working capital, which will generate additional costs.

After analysing different cost reduction scenarios without impacting the good running of Company's current activities by registering a negative operational cash flow, as well as variants to diminish the impact of lower transmission revenues as tariffs will freeze until 31 March 2022 and their increase is limited from 1 April onward, according to ANRE proposals, a need of external finance was identified of about 130,000,000 Lei to balance cash flows. We take into account a current loan accessed to the necessary extent in the following period.

Such crediting operation in relation to the provisions of article 25 let. (g) corroborated with article 14 para (3) let. (c) and article 21 para (3) let. (d) of the Articles of association is the Directorate's competence with the preliminary agreement of the Supervisory Board.

On the other hand as regards a part of the subsidiaries, the Company for Maintenance Services to the Electricity Transmission Grid SMART SA (SMART SA), the Company for Telecommunication and Information Technology in Electricity Transmission Networks TELETRANS SA (TELETRANS SA) and Company Formenerg SA (FORMENERG SA), the Company identified financing needs for them, either to restore their activities or to develop the companies (circumstances differ from case to case, being described in section 2 below).

The Company's related activities, namely RET maintenance as well as IT and telecommunications (critical strategic activities aiming at good RET operation) are activities participating in synergy to the good run of the business and are performed by its subsidiaries.

The financial situation requires the immediate intervention of the Company in its capacity of single shareholder in order to restore the companies or, as the case may be to provide sustainable development. If finding a solution to solve the subsidiaries' financial needs is delayed consequences mean not only their impossible payment of current liabilities but also gaps occurring in the provision of essential services for the safe operation of the National Power System.

In terms of cumulated historical losses and absent operational capacity to generate positive cash flows, the fore-mentioned subsidiaries have no creditworthiness or, as the case may be, are in cash deficit. In this context such companies cannot resort to finance on the monetary market to carry out their activities according to market standards and requirements. In addition, they cannot develop their business to be competitive under competition.

2. Financial needs of Company subsidiaries

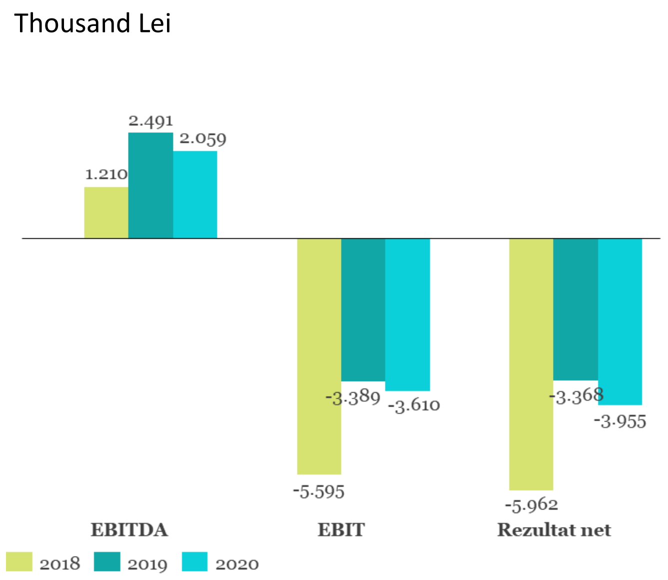
2.1 SMART SA

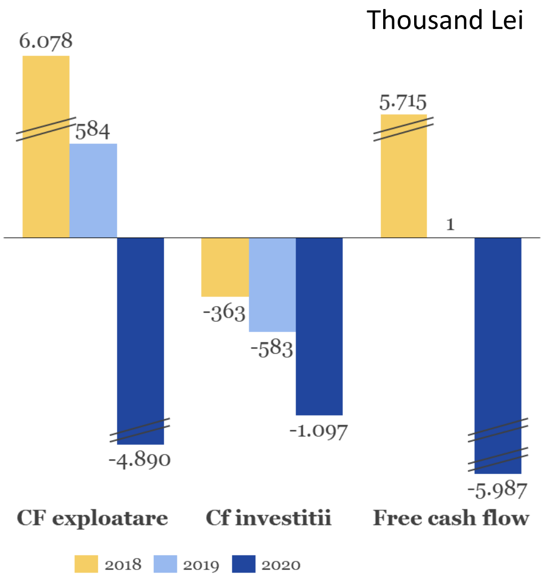
SMART SA has as main business the revisions and repairs to live outfits and equipment, transformers and autotransformers; remedial of incidents in electric installations and micro-production of electric equipment. The company has 8 branches without legal personality, situated in the same locations as Transelectrica's territorial transmission units.

The mission which SMART SA was established for has been and still remains to provide preventive maintenance, special work and corrective maintenance for the Electricity Transmission Grid (RET) starting from the primordial objective of Transelectrica: to provide electricity transmission in the national transmission network under safe stable conditions. In terms of general strategic objectives at least the following is taken into consideration:

- ✓ Providing high availability of RET assets
- ✓ Higher operational flexibility
- ✓ Diminished intervention times
- ✓ Coordinating maintenance services / work with the outage schedule of the National Power Dispatcher (DEN)

The poor financial situation of this subsidiary, faced with absent liquidities meant to sustain operational activities and equally the investment plan, which was dramatically reduced these last years, makes it extremely difficult to resort to bank loans.





The company's financial performance is strictly related to the maintenance policy of the single shareholder, since over 90% of the subsidiary's revenues come from the contracts concluded with Transelectrica

2.2 TELETRANS SA

TELETRANS SA was established by AGA Decision 13/04.12.2002 of Transelectrica based on Law 31/1990 and on Orders 3098 and 3101 of the Ministry of Industry and Trade of 23.10.2002 and is the supplier of specific telecommunications & IT services for the operational managerial lead of Transelectrica, having as main business to provide specific telecommunications and information technology services into electricity transmission networks.

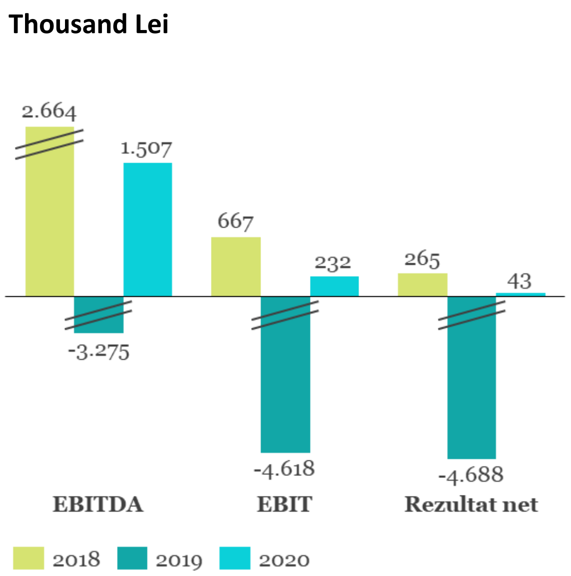
TELETRANS SA is a subsidiary fully owned by Transelectrica, and its main business is to provide communications and IT services to manage electricity transmission networks. The competence of TELETRANS is structured by the following main lines:

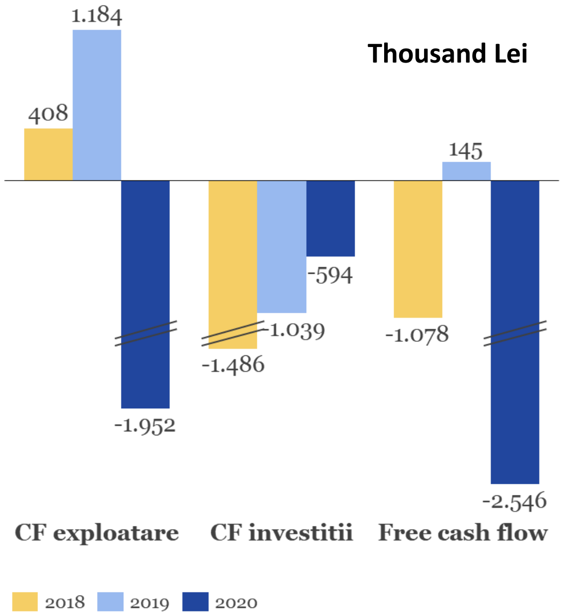
- ✓ Telecommunication services - mainly as technical administrator of the Company's magistral optical fibre network, which is about 5000 km long and covers entire Romania;
- ✓ Process information services - especially in the electric power domain;
- ✓ Managerial information services - full range, including consultancy, design, implementation, maintenance, technical assistance and training for complex systems, software, Oracle databases, communication equipment, structured cabling, Internet / Intranet;
- ✓ Providing information security to a certain part of Transelectrica's infrastructure;

TELETRANS SA uses an optical fibre network built using the reliable OPGW technology, with access points in 110 localities; it provides technical assistance for cross-border connections with Hungary, Bulgaria and Serbia and provides technical assistance for integration into EMS/SCADA for producers from renewable sources and the new command-control systems of refurbished substations.

Analysing the financial result of the last 3 years, the subsidiary's profitability has descendent trend, which means it is impossible to develop its business from its own sources, even if slight recovery is foreseen in 2020.

As regards cash flows, one can notice progressive deterioration therefore the cash remaining available for the company, the free cash flow to cover interest rates and develop the business is negative (the subsidiary needs external finance).





2.3 FORMENERG SA

Company FORMENERG SA was established by Decision 33/19.11.2001 of the Shareholders' General Assembly of Transelectrica SA by externalising the activities of the Subsidiary of Personnel Training and Instruction in the Energy Sector. FORMENERG SA began operating on 21 March 2002, being a company with main business in the initial and continuous professional training in all domains for personnel with attributions in the energy field from all economic sectors of the national economy and for other beneficiaries, including Transelectrica, ENGIE Romania, Romgaz, Transgaz Medias, Nuclearelectrica and Hidroelectrica among its clients. FORMENERG SA is the oldest professional training centre of Romania, with more than 48 years' experience in professional training, which managed to get updated and adapt to clients' requirements, providing now a varied range of courses in different domains: management, marketing, finance, accounting, legislation, informatics, quality, environment, occupational health and security, constructions, energy strategy, ECDL, communication, human resources, European funds, public procurement, technical courses, specific courses in the energy sector. The competence of FORMENERG is structured by the following main lines:

- ✓ Performing training activities
- ✓ Launching new courses
- ✓ Participating to bids
- ✓ Re-licensing the courses
- ✓ Improving the company's technical-material base

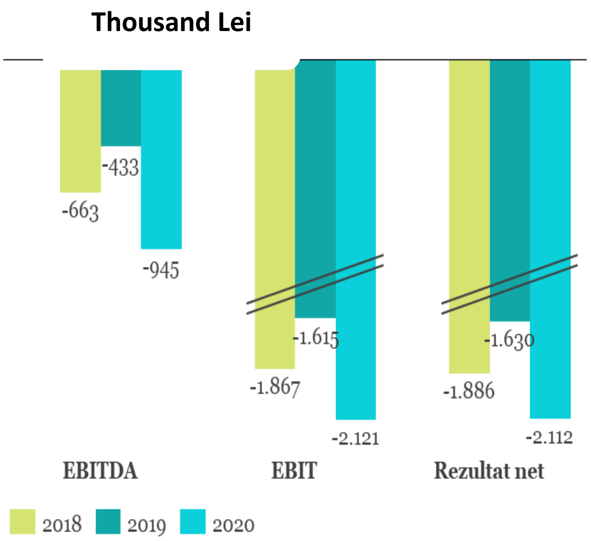
FORMENERG SA manages 3 business lines:

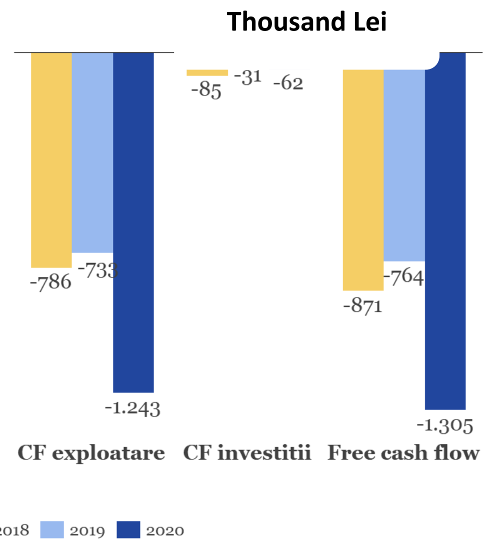
- ✓ Professional training
- ✓ Hotel services (hostel) and
- ✓ Rental services for course / conference halls and offices

Hotel services (hostel type) and rents are complementary activities to the core ones.

In financial terms the subsidiary cumulates losses from one year to another. Under such circumstances it is obvious resources are limited for operational activities and amounts available for possible investments (both to maintain existent equipment and for development) are inexistent.

The subsidiary takes into account upgrading and adapting to the requirements of a very dynamic market under permanent change, but in such a case resorting to external financing is required.





3. Financing mode proposed for Company subsidiaries

The cash pooling concept is an instrument of liquidity management, not legislatively consecrated *eo ipso* in Romania, means supposes using available financial resources in some companies of the holding to cover need of financial resources of their companies, members of the same holding. Thus, cash pooling structures constitute effective mode to reduce financing costs of resorting to external sources (for instance banks or other financial institutions).

In practice this liquidity management instrument is provided by most Romanian banks and can be used by any company or holding with accounts opened into banks of Romania.

In this case Transelectrica can implement a cash pooling type financing structure as follows:

i. By using the cash excess available in the Company, and / or

ii. By using a bank facility, usually concluded with the bank suppliers of cash pooling services, wherefrom it will draw cash to finance its subsidiaries;

Essentially the entire process is reduced to utilising the cash excess of a company to finance in the short run the cash need of a holding company based on loan contracts by complying with certain conditions. Equally in absence of cash excess a credit facility can be resorted to (credit is granted to the company with the lowest risk profile) to finance a company or several from a holding, which have a weaker risk profile and consequently higher financing costs.

The interest difference achieved by such transactions (the interest achieved for deposits opened with banks in case of cash excess which are Transelectrica's or the interest at which Transeletrica is financed on the bank market when there is no such excess is inferior of the interest that may finance subsidiaries on the bank market in case of different risk profile) leads to optimising the financial costs of the holding.

In this respect the Company takes into account contracting a current loan that will be accessed to the extent of needs and justified in the next period in total amount of 200,000,000 Lei, **of which maximum 70,000,000 Lei** will be allocated to financial support for subsidiaries' activities by implementing the cash pooling structure within Transelectrica.

The general terms associated to subsidiaries' access to cash pooling financing are:

a) A recovery plan or a development plan with economic foundations, endorsed by the Board of administration and approved by the Shareholders' general assembly of the subsidiary;
b) A positive result of the preliminary analysis of financing risks;
c) Compliance with the legal framework regulating transactions with affiliated parties, including the issue of transfer prices;
d) The purpose of financing: investments and / or working capital;
e) Access: after a detected financing need according to a loan contract;
f) Establishing financial performance and guarantee terms on behalf of the financed subsidiary;
g) Periodical semestrial monitoring of financial performance and of the compliance with the loan terms;

The cash pooling type financial structure of Company subsidiaries means an operation to be performed by the Company *in its capacity of creditor of any type of loans or loan-type liabilities*, and in relation to the provisions of article 14 para (3) let. (a) of the Articles of association, such operation has to be approved by the Company's Shareholders' general extraordinary assembly.

4. Proposal

In accordance with article 14 para (3) let. (a) from the Articles of association, the proposal for the Shareholders' general extraordinary assembly of the Company is to:

- **Approve the financing by the Company of subsidiaries Company for Maintenance Services for the Electricity Transmission Grid SMART SA and / or Company for Telecommunications and Information Technology Services in Electricity Transmission Grids TELETRANS SA and / or Company Formenerg SA under associated conditions with an amount up to 70,000,000 Lei based on cash pooling type credit agreement.**

DIRECTORATE

Chairman	*Member*	*Member*	*Member*	*Member*
Bogdan TONCESCU	Adrian MORARU	Ionut-Bogdan GRECIA	Catalin-Constantin NADOLU	Marius Viorel STANCIU