



**Transelectrica®**  
Societate Administrată în Sistem Dualist

To the: **SHAREHOLDERS' GENERAL ASSEMBLY**

**Compania Națională de Transport al Energiei Electrice**  
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## **Report of the Audit Committee**

**from the Supervisory Board of NPG Co. Transelectrica S.A. (TEL) for 2021**

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

In accordance with its statutory duties, the Supervisory Board (SB) 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 SB 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 (SGA).

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

The Audit Committee within the Supervisory Board (SB) of NPG Co. Transelectrica S.A., established based on the Articles of Association of NPG Co. Transelectrica S.A., updated on December 21, 2020 by SEGA Decision no. 12/21.12.2020, carried out its activity in accordance with the relevant legal provisions. The Audit Committee assists the SB in fulfilling its responsibilities regarding financial reporting, internal control and risk management. The Committee shall submit to the SB, on a regular basis or whenever necessary, reports on its work.

Audit Committee members are nominated from among the SB members (who in their turn are appointed by SGA). Its current membership is the following: Victor Florin DUMITRIU - Chairman, Mihaela POPESCU - member, Adina-Loredana DOGARU-TULICA - member, Marius Vasile MORARIU - member.

Throughout 2021, the Audit Committee, having gathered for 5 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 NPG Co. Transelectrica S.A. for 2021 and the investment expenses in 2022-2023;
- The Company's 2021 Income and Expense Budget, and the estimations for 2022 and 2023;
- Achieving the 2020 Plan of audit missions and the implementation stage of the recommendations following the 2020 audit missions;
- Plan of public internal audit missions 2021;
- Stand-alone preliminary financial statements on the date and for the financial year ended on 31 December 2020 (non-audited);
- Stand-alone and consolidated Financial Statements for the financial year ended December 31, 2020;
- The financial auditor's report on the Financial Statements concluded on December 31, 2020;
- The annual report on the 2020 consolidated financial statements of Transelectrica;
- The Directorate's Annual report about 2020 Company activities carried on, elaborated in accordance with the provisions of article 65 Law 24/ 2017 on the issuers of financial instruments and market operations and Regulation 5/2018 on financial instruments issuers and market operations;

- Stand-alone interim simplified financial statements on the date and for the three months' period ended on 31 March 2021;
- Stand-alone simplified financial statements of NPG Co. Transelectrica S.A. on the date and for the 6 months' period ended on 30 June 2021;
- Report of semester I 2021 on the economic-financial activity of NPG Co. Transelectrica S.A. (elaborated according to the capital market requirements);
- The situation of the public internal audit missions carried out in 2021;
- Simplified separate financial statements as of the date and for the 9-month period ended September 30, 2021;
- Quarterly report (FSA) with respect to the economic-financial activity of NPG Co. Transelectrica S.A. elaborated according to the capital market requirements as of 30.09.2021.

During these meetings, Audit Committee members of the SB have acknowledged the following documents:

- The Directorate's Activity report pertaining to quarter IV 2020;
- Estimated economic situation in the first two months of 2021;
- The independent auditor's Report for the year ended on 31 December 2020;
- Distribution of net profit on 31.12.2020;
- Sustainability Report of 2020;
- Non-financial consolidated report, 2020;
- The Directorate's Activity report with respect to the quarterly results from quarter I of 2021 (elaborated according to the provisions of GEO 109/2011);
- Quarterly report with respect to the economic-financial activity of NPG Co. Transelectrica S.A. in quarter I of 2021 (elaborated according to the capital market requirements);
- The Directorate's Activity report with respect to the quarterly results in quarter II of 2021 (elaborated according to the provisions of GEO 109/2011);
- The Directorate's Activity report with respect to the quarterly results in quarter III of 2021 (elaborated according to the provisions of GEO 109/2011);
- Report regarding the 2021 Public Internal Audit activities developed within TEL and in its subsidiaries as well;
- Others.

At the same time, in 2021, The Audit Committee of the Supervisory Board participated to the elaboration and finalisation of:

- The 2020 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 (SOGA document at its reunion on 28.04.2021);
- Report of semester II 2021 of the SB about administration activities, elaborated according to GEO 109/2011, submitted to shareholders gathered in ordinary reunion on 28.09.2021;

Throughout 2021, the Audit Committee has been informed about the 2021 Action Plan of (internal) audit and was communicated all the Audit reports elaborated in 2021.

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:

#### **I. Report regarding the 2021 activities developed by the Public Internal Audit (API) structure within NPG Co. Transelectrica S.A. and in its subsidiaries**

The activity report presents the way of organizing and carrying out the public internal audit activity within National Power Grid Company Transelectrica S.A. (NPG Co. Transelectrica S.A.) as well as within its subsidiaries (Company for Electricity Transmission Maintenance Services SMART – S.A., the Electricity Market Operator Company OPCOM – S.A., FORMENERG – S.A. Company, the Company for Telecommunication Services and Information Technology in Electric Transmission Networks TELETRANS – S.A., ICEMENERG – SERVICE – S.A. Company. Within them, establishing the public internal audit is as follows:

1. three subsidiaries have established their own public internal audit, with the approval of NPG Co. Transelectrica S.A.;
2. two subsidiaries internal audit provided by the higher hierarchical body. The internal audit is provided by NPG Co. Transelectrica S.A. for the subsidiaries FORMENERG and ICEMENERG SERVICE S.A. .

During 2021, the public internal audit was carried out through the public internal audit structure (API) within NPG Co. Transelectrica S.A., in compliance with the minimum reporting requirements required by UCAAPI (Central Harmonization Unit for Public Internal Audit) within the standard format of the current year's annual report.

### **I.1. Public internal audit planning**

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 2021 plan of public internal audit missions included a number of 30 assurance missions (one at FORMENERG subsidiary, two at the Company's Executive branch and 27 at its territorial transmission units) and an assessment mission (at TELETRANS subsidiary).

### **I.2. Public internal audit missions performed**

In 2021 within NPG Co. Transelectrica S.A. have been completed:

- ✓ 25 planned assurance audit missions, covering the following areas:
  - financial - accounting: six missions performed in the territorial transmission units;
  - specific functions: one mission carried out in FORMENERG subsidiary, two missions carried out in the Company's Executive branch and 16 missions carried out in the territorial transmission units;
- ✓ an assessment mission.

Not all planned missions were completed on time (endorsed by the Directorate), on objective grounds, namely organizational changes, rescheduling of three public internal audit missions and requesting a conciliation meeting. As a result, 83.3% of the plan was completed.

In 2021, no advisory missions or ad hoc audit missions were carried out.

### **I.3. Current situation of public internal audit**

Within NPG Co. Transelectrica S.A. the established public internal audit structure is also functional.

Within the five subsidiaries that established the public internal audit, its operation has the following characteristics:

- ✓ In four entities the public internal audit works:
  - in three entities (SMART, OPCOM, TELETRANS) through their own structure;
  - in an entity (FORMENERG) through the higher hierarchical body;
- ✓ In an entity (ICEMENERG SERVICE) the public internal audit does not work, although it is established by the hierarchically superior body. ICEMENERG SERVICE is in bankruptcy proceedings, no public internal audit missions have been carried out in recent years, this being the cause of the non-functioning of the public internal audit provided by the higher hierarchical body.

#### **I.3.1. Public internal audit reporting**

Of the five subsidiaries (subordinated entities) of the Company, three entities (SMART, OPCOM and TELETRANS) established the public internal audit through their own structure with the approval of NPG Co. Transelectrica S.A. .

The public internal audit operates through its own structure at all three subsidiaries. Thus, the three subordinated entities have the obligation to issue and communicate to NPG Co. Transelectrica S.A. the annual activity report on the public internal audit.

### 1.3.2. Independence of the public internal audit structure and objectivity of auditors

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:

- ✓ 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, and to maintain the objectivity of public internal auditors the following criteria are observed:

- ✓ 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.

These aspects are found in the current legal basis, respectively Law no. 672/2002, republished with later amendments and additions and GD no. 1086/2013. Also, similar aspects are found in the international internal audit practice stipulated in the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (Standards 1100 to 1130).

❖ <u>Within NPG Co. Transelectrica S.A.</u>	
According to the Organizational and Functional Structure valid from 01.07.2021, approved by Directorate Decision no. 75/01.07.2021, the structure of Public Internal Audit (API) is subordinated to the Company's Directorate. During 2021, there were no appointments or dismissals of the public internal audit structure's management, nor revocation of the internal auditors. An internal auditor was appointed during the reporting year. The appointment was made in compliance with the regulations in force regarding the appointment/revocation of internal auditors. In 2021, the structure of Public Internal Audit was not involved in the exercise of auditable activities. At the same time, in 2021 all internal auditors filled in the "Statement of Independence" for each public internal audit mission in which they participated. No issues were found after filling in these statements.	
❖ <u>At the level of NPG Co. Transelectrica S.A. subsidiaries</u> From the annual activity reports issued by a number of three functional public internal audit structures, the following information resulted:	
Regarding the position of the public internal audit structure:	
Subsidiary	<div>OPCOM</div> <div>The Internal Audit Office is directly subordinated to the OPCOM S.A.'s Director General.</div>
	<div>SMART</div> <div>From a functional point of view, the position of the Internal Audit Department is directly subordinated to the Company's Director General, performing a distinct function, independently of the company's activities.</div>
	<div>TELETRANS</div> <div>The internal audit structure within S.S.T.T.I.R.E.T. Teletrans S.A., according to the approved organizational chart in force, is directly subordinated to the Company's Director General.</div>
Regarding the application and observance of the procedure for appointing/dismissing the head of the public internal audit structure during 2021:	
Subsidiary	<div>OPCOM</div> <div>Within the Internal Audit Office, the head of the structure is nominated, this being endorsed by the hierarchically superior public internal audit structure, according to permit no. 40768/07.10.2020.</div>
	<div>SMART</div> <div>In 2021, appointments were made in the internal audit management, the position of head of the Internal Audit Department being filled by examination.</div>
	<div>TELETRANS</div> <div>This was not the case in the reporting year.</div>
Regarding the application and observance of the procedure for appointing/revoking the internal public auditors during 2021:	

Subsidiary	OPCOM	Within the public internal audit structure, an employee with the position of specialist II carries out his/her activity and has attributions regarding the public internal audit activity.
	SMART	In 2021, the appointment and approval of the head of the internal audit department and of the internal auditor were made in compliance with the legal provisions regarding the issuance of the approval by the public internal audit structure within the Company.
	TELETRANS	During the reporting year 2021, a lawyer transferred from the Legal and Litigation Department to the Public Internal Audit Department was appointed as internal auditor.
Objectivity of internal auditors within subsidiaries:		
Subsidiary	OPCOM	In 2021, the public internal audit structure was not involved in carrying out the auditable activities within the company. For each of the public internal audit missions carried out in 2021, the personnel with attributions in their performance prepared the related statements of independence, according to the methodology of the public internal audit. There were no incompatibilities regarding the completion of these documents and no possible incompatibilities arose during the performance of the public internal audit missions.
	SMART	The Internal Audit Department was not involved in audit activities in 2021. Statements of independence shall be completed by the internal auditors at the start of each internal audit engagement. In 2021, no issues were found after completing the statements of independence.
	TELETRANS	In 2021, the internal auditors within the Internal Audit Department were not involved in carrying out the auditable activities. The subsidiary's management did not involve the internal audit in the performance of some activities that were part, in 2021, of the auditable area. The statement of independence is completed by the auditors at each internal audit engagement. During 2021, no issues were found after completing the statements.

### I.3.3. 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 application and observance of the public internal auditor's ethical conduct code. 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. In view of this, it is necessary for the public internal audit structures to analyze and decide how many of the activities carried out have to be under procedure (i.e. to issue a written procedure for that activity). In this context, the degree of procedure issuance may vary from one entity to another, depending on the professional judgment applied. Also, for the procedural activities, it will be established what is the issuance degree of the procedures. Naturally, the target is 100%, aiming to come as close as possible to this percentage.

### I.3.4. Existence of written procedures specific to public internal audit

- ❖ Within NPG Co. Transelectrica S.A. At the level of the public internal audit structure, an activity was identified, namely that of "public internal audit", which was carried out by procedure. The internal procedure was updated during 2021. Therefore, a written procedure was issued for an activity identified to be carried out by procedure, which represents a 100% degree of issuance of procedures.
- ❖ Within the Company's subsidiaries - all three subsidiaries that established the public internal audit function through their own structure received the agreement of NPG Co. Transelectrica S.A. for issuing its own regulations. Thus, at the level of the public internal audit structures within the subsidiaries, the following activities were established as being carried out by procedure:



1. OPCOM: 4 main activities have been identified:

- ✓ Elaborating and updating of the Methodological Norms specific to the public internal audit activity and of the Internal Audit Charter at OPCOM level;
- ✓ Elaborating the multi-annual and annual public internal audit plan at OPCOM level;
- ✓ Carrying out internal public audit missions of assurance and counseling at OPCOM level;
- ✓ Elaborating regular reports to the interested parties/entities regarding the public internal audit at OPCOM level.

At the level of the Internal Audit Office, a number of 4 written procedures have been elaborated and are being implemented, as mentioned above, which represents a 100% degree of issuance of procedures.

2. SMART: Within the Internal Audit Department there is the operational procedure of Public Internal Audit.

3. TELETRANS: Within the public internal audit structure, the activities to be carried out by procedure for which a single procedure was developed were identified. The activities covered by the procedure and established as procedural are the following:

- ✓ Organizing the internal audit activity;
- ✓ Appointment/dismissal of the head of CAI - Teletrans and of the internal auditors;
- ✓ Conducting the internal audit;
- ✓ Providing and improving the quality of internal audit;
- ✓ Planning the public internal audit activity;
- ✓ Methodology of conducting a regular public audit mission of regularity/compliance;
- ✓ Carrying out a regular/compliance internal public audit mission;
- ✓ Carrying out internal performance audit missions;
- ✓ Carrying out internal system audit missions;
- ✓ Counseling mission. Carrying out formalized counseling missions;
- ✓ Reporting the public internal audit activity. Annual internal audit report.

A written procedure has been issued for all procedural activities, which represents a 100% degree of issuance of procedures. The operational procedure was updated in November 2020.

### **I.3.5. Providing and improving the quality of public internal audit**

#### Elaborating and updating the Quality Insurance and Improvement Programme (PAIC)

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 that the activity is carried out in accordance with the rules, instructions and the Code on the ethical conduct of the public internal auditor,
- ✓ contribute to the improvement of the activity of the public internal audit structure,
- ✓ express conclusions regarding the quality of the public internal audit activity,
- ✓ make recommendations for the implementation of appropriate improvements to this activity and
- ✓ allow an evaluation of:
  - compliance with the legal basis in force;
  - the contribution of the public internal audit to the processes of governance, risk management and control of the organization;
  - full coverage of the auditable domain;
  - compliance with the laws, regulations and procedures that the public internal audit activity must comply with;
  - the risks affecting the operation of the public internal audit.

With this process, external evaluation should effectively become an opportunity to gain new insights from the evaluator or evaluation team on how to improve the overall quality of public internal audit, as well as its efficiency and effectiveness.

#### ❖ Within NPG Co. Transelectrica S.A.

The latest PAIC update was made on 10.12.2020 at the level of the public internal audit structure within the Company.

#### ❖ Within NPG Co. Transelectrica S.A. subsidiaries

The following information resulted from the annual activity reports issued by a number of three functioning public internal audit structures:

1. At the level of the public internal audit structure within OPCOM, the version elaborated in 2020 of the Program for providing and improving the quality of the public internal audit activity is applicable and contains the 2020 – 2022 action plan.
2. At the level of the Internal Audit Service within SMART, PAIC was issued in 2021.
3. At the level of the public internal audit structure within Teletrans, the PAIC was issued in 2015, being periodically updated. The document was last updated in March 2021.

### **I.3.6. 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. 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.

#### **❖ In NPG Co. Transelectrica S.A.**

In 2021, the structure of Public Internal Audit was evaluated by the Public Internal Audit Department within GSG, the hierarchically superior body.

#### **❖ In the subsidiaries of NPG Co. Transelectrica S.A.**

At the level of subordinated entities, from the annual activity reports issued by a number of three functional public internal audit structures, it resulted that, in 2021: Teletrans was evaluated by Transelectrica. All three subsidiaries were evaluated by the higher hierarchical body, the Court of Auditors, or other entities. Regarding the evaluation of the public internal audit activity every five years, in the last five years, the functional internal audit structures have not been evaluated.

### **I.3.7. Human resources allocated to internal audit**

At a time when there is an increasing emphasis on organizational accountability, improved internal control, risk management and corporate governance, more and more emphasis should be placed on public internal audit structures. In order to achieve its objectives, it is important that the internal audit structure has access to human resources that have the necessary skills for this purpose.

#### **❖ In NPG Co. Transelectrica S.A. – according to the organizational chart, on December 31, 2021, the public internal audit structure had all the positions occupied.**

#### **❖ In the subsidiaries of NPG Co. Transelectrica S.A. – on December 31, 2021, the public internal audit structures had allocated a number of three management positions, all of which were occupied and 3 operating positions. The positions held are those who actually work for the public internal audit structure.**

### **I.3.8 Personnel structure and professional training as of December 31, 2021**

When analyzing personnel structure, the following criteria were taken into account: public internal audit experience, field of specialized studies, foreign languages, national and international certifications held as well as membership in national and international professional organizations. All these elements, together with the personnel's professional training, contribute to a qualitative analysis of the human resource, an extremely important factor in carrying out the public internal audit activity.

#### **❖ In NPG Co. Transelectrica S.A.**

According to the Classification provided in the Collective Labor Agreement, all employees within API are employed as internal auditors, and the head of the structure as Chief Inspector. According to the populated list of positions, valid from the end of 2021, within the structure of Public Internal Audit (API) there is a chief inspector (with experience in public internal audit of more than five years) and eight internal auditors (with experience in public internal audit of more than five years). An internal auditor is a member of CAFR and ANEVAR.

❖ In the subsidiaries of NPG Co. Transelectrica S.A.

1. At the level of the Internal Audit Office within OPCOM, an employee with over 14 years of experience in public internal audit (head of the structure) works.
2. Within SMART, the head of the internal audit department has experience in public internal audit since 2019.
3. Within Teletrans, the manager has an experience in internal audit of up to 3 years.

During the reporting year, the minimum number of training days provided by the regulatory framework was achieved. Due to the pandemic situation in 2021, each CAI employee participated in a single training course in internal audit and for the rest of the time, through individual study for professional training.

It is found that due to the individual study of each internal auditor, the minimum professional training requirement provided by the relevant legislation (15 days per year) has been fulfilled.

#### **I.4. Analysis of the adequacy of the public internal audit department's size**

The cumulative interpretation of the articles of law<sup>1</sup> shows that the auditable domain must be fully covered within three years, depending on the risks associated with the activities. Thus, the public internal audit structure is organized so that it has the necessary resources to audit, within three years, based on risk analysis, all the activities carried out by the company. In accordance with the applicable regulations, the structure of the public internal audit is dimensioned (number of auditors, based on the workload and the size of the associated risks), so that it ensures the audit of the activities included in the scope of the public internal audit.

❖ In NPG Co. Transelectrica S.A.

Taking into account the existing staff resource, respectively a number of nine existing and occupied positions, the coverage of the auditable scope in three years is 53%. In order to comply with the legal provisions and the full coverage (100%) of the auditable scope in a period of three years, the public internal audit structure would need a total of 17 positions of public internal auditors occupied.

❖ In the subsidiaries<sup>2</sup> of NPG Co. Transelectrica S.A.

1. OPCOM – a number of occupied positions exercising public internal audit activity, the coverage degree of the auditable scope in 3 years is 100%.
2. SMART – 2 positions occupied, the coverage of the auditable scope in 3 years is 100%.
3. TELETRANS – 1 management position and 1 operating position, the coverage degree of the auditable scope in 3 years is 100%.

#### **I.5. Planning the internal audit activity carried out in the reporting year**

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<sup>1</sup> According to art. 3 para. (2) of Law no. 672/2002, the scope of the public internal audit includes all the activities carried out within the public entities in order to fulfill their objectives, including the evaluation of the managerial control system. According to the provisions of art. 15 para. (1) of Law no. 672/2002, the public internal audit is performed on all the activities carried out in a public entity, including on the activities of the subordinated entities, under the coordination or under the authority of other public entities. According to the provisions of art. 15 para. (2) of Law no. 672/2002, the public internal audit structure audits, at least once every 3 years, without being limited to the following:

- a. the financial activities or with financial implications carried out by the public entity since the establishment of the commitments until the use of the funds by the final beneficiaries, including the funds from external financing;
- b. payments made under budgetary and legal commitments, including from Community funds;
- c. the administration of patrimonial assets, as well as the sale, pledging, concession or rent of goods from the state's private domain or of the administrative-territorial units;
- d. the concession or rental of goods from the state's public domain or of the administrative-territorial units;
- e. the establishment of public revenues, namely the manner of authorization and establishment of debt securities, as well as the facilities granted for their collection;
- f. allocation of budget appropriations;
- g. the accounting system and its reliability;
- h. decision making system;
- i. management and control systems, as well as the risks associated with such systems;
- j. computer systems.

<sup>2</sup> In order to comply with the legal provisions and the full coverage (100%) of the auditable scope in a period of three years, the internal audit structure needs a total number of 2 positions of internal auditors occupied (1 internal auditor - head of department and 1 internal auditor - operating position).



Regarding the public internal audit, the planning is performed multiannually, for a period of 3 years, but also annually. The calculation and distribution of resources is done only on the shorter time horizon (1 year). The planning is based on the assessment of the risks related to the activities carried out within the Company and the prioritization of these activities according to the risk score. This risk score is what will determine when that activity will be audited by the public internal audit structure. 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 reassessed periodically, in order to be followed in their dynamics. In this context, the multi-annual public internal audit plan should be updated annually, and this should be the basis for the development of the annual public internal audit plan. Also, in order to perform a substantiated risk analysis, but also to reduce the subjectivity degree of the risk analysis, we consider it necessary to use well-defined risk analysis criteria, explaining the effective way to perform the risk analysis and establish the risk score.

❖ In NPG Co. Transelectrica S.A.

For 2017 - 2021, the Multiannual Public Internal Audit Plan of NPG Co. Transelectrica S.A. was elaborated and approved, but it has not been updated. The existing internal auditors carried out public internal audit missions within the organizational structures of the Company's Executive branch, the eight Territorial Transmission Units and the subsidiaries where there is no internal audit structure. The audit in OPCOM, SMART and TELETRANS subsidiaries was performed through their own structure, and the API staff from NPG Co. Transelectrica S.A. shall assess them.

Given the very large number and diversity of activities carried out within the Company, compared to the human resources of the API structure and the annual calendar available for public internal audit missions, as well as the need to carry out evaluation missions in subsidiaries, the multi-annual plan was prepared for a period of five years.

In order to break down the audited activities by years, a hierarchy of organizational entities was made, depending on their importance and contribution in achieving the main activity objectives of NPG Co. Transelectrica SA. Within each structure, the activities carried out were identified and ranked, based on the detailed organization and functioning regulations and the discussions with the management of the respective entities. The ranking also took into account the analysis and assessment of the risks associated with each activity. The division of these activities into years was in accordance with International Standards on Auditing and good practice in the field, taking into account, as far as possible, a balanced distribution. Thus, every year, mainly high-risk activities will be audited, but also those with medium and low risk. The risk analysis criteria used in the annual and multiannual planning are as follows:

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

❖ In the subsidiaries<sup>3</sup> of NPG Co. Transelectrica S.A.

1. OPCOM – Specific criteria have been developed for multi-annual planning. In this regard, the risk analysis criteria used in the planning process took into account the following elements:

- ✓ the share of risks identified for the activity within structures;
- ✓ coverage degree of activities under procedure;
- ✓ methodological changes due to legislative changes;
- ✓ the share of the number of measures to be implemented for the risks that require treatment/mitigation.

2. SMART – The 2019-2021 multi-annual internal audit plan was developed in December 2021, in accordance with the relevant legislation. The planning includes the missions regarding the audit of the activities, structures, processes, projects and operations carried out by the subsidiary. The selection of internal audit missions was made according to the risk assessment related to the various activities and operations, taking into account the periodicity of the audit every 3 years, the types of audits and the available audit resources. The elaboration of the multi-annual internal audit plan was done by going through the following stages:

- a. identifying the activities carried out within the company and included in the scope of internal audit;
- b. establishing the criteria for risk analysis;
- c. determining the total risk score for each activity and their ranking;

<sup>3</sup> In order to comply with the legal provisions and the full coverage (100%) of the auditable scope in a period of three years, the internal audit structure needs a total number of 2 positions of internal auditors occupied (1 internal auditor - head of department and 1 internal auditor – operating position).

- d. establishing the distribution of internal audit missions by years;
- e. preparation of the multi-annual audit plan.

The operations from points a - c were carried out by drawing up the Annex "Identification of activities, determination of the total risk score and their ranking for the 2019-2021 multi-annual plan". The analysis of the situation resulted in a number of 25 auditable activities that presented high and medium risks. These activities were evaluated during 2019-2021 in 12 regular missions. The selection of missions for 2021 was made in accordance with the 2019-2021 multi-annual internal audit plan, approved by the Director General, included 3 regular missions and 2 ad-hoc missions.

3. TELETRANS – for the realization of the planning were identified the auditable domains established by the risk analysis criteria used in the annual and multiannual planning, respectively: assessment of internal control, quantitative assessment, qualitative assessment, legislative changes.

The multi-annual and annual planning activity is included in the operational internal audit procedure, is carried out taking into account the structures within the subsidiary and based on the Annual Internal Audit Plan. The 2021 public internal audit plan was based on:

- ✓ the 2021 - 2023 multi-annual internal audit plan, based on the analysis of risks and forecasts regarding the development/maintenance of the subsidiary's activity;
- ✓ the impact of changes in the internal and external environment in which the subsidiary evolves;
- ✓ the time available and the human resources involved.

Within the 2021 Annual Plan, a number of 2 assurance missions and 1 formalized advisory mission were established, respectively:

- ✓ evaluation of the activity flows within Teletrans Executive structures;
- ✓ evaluation of the corruption prevention system;
- ✓ evaluation of the activity of the Financial Management Control Department.

During 2021, the annual audit plan was modified by supplementing a regularity/compliance audit mission, respectively "Verifying the activity of the Assets Administrative Services Department". Thus, a total number of 4 missions took place, of which 1 formalized counseling mission and 3 assurance missions, respectively:

- ✓ evaluation of the activity flows within Teletrans Executive structures;
- ✓ evaluation of the corruption prevention system;
- ✓ evaluation of the activity of the Financial Management Control Department;
- ✓ verifying the activity of the Assets Administrative Services Department.

## **I.6. Carrying out internal audit missions**

### **I.6.1. Carrying out assurance missions**

#### **❖ In NPG Co. Transelectrica S.A.**

In 2021, a number of 25 assurance missions were carried out. Taking into account several domains can be dwelt with during an assurance mission, it was thus ascertained:

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

During the public internal audit missions carried out during 2021, no irregularities and no outstanding recommendations have been ascertained.

Regarding the follow-up of the implementation of the recommendations, this activity refers to the recommendations formulated by the public internal audit structure within the previous assurance missions and for which the public internal audit structure has the obligation to supervise the implementation method. In this context, during 2021, a number of 154 recommendations were supervised, with the following results:

- ✓ 70 implemented recommendations, of which: 63 recommendations implemented within the established term and 7 recommendations implemented after the established term;
- ✓ 35 partially implemented recommendations (under implementation), of which: 17 recommendations whose set implementation term was not exceeded and 18 recommendations with exceeded implementation term;
- ✓ 49 non-implemented recommendations, of which: 20 recommendations whose established implementation term was not exceeded and 29 recommendations 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	13	4	2	5	0	5
Public procurement	0	0	2	0	0	0
Resurse umane	0	0	0	3	0	0
Human resources	0	0	0	0	0	1
Juridical	0	0	0	0	0	0
Community funds	0	0	0	0	0	0
Entity-specific functions	50	3	11	9	20	22
SCM/SCIM	0	0	2	0	0	0
Other domains	0	0	0	1	0	1
<b>TOTAL 1</b>	<b>63</b>	<b>7</b>	<b>17</b>	<b>18</b>	<b>20</b>	<b>29</b>
<b>TOTAL 2</b>	<b>70</b>		<b>35</b>		<b>49</b>	

❖ In the subsidiaries of NPG Co. Transelectrica S.A.

A number of 11 assurance missions were performed. Taking into account several domains can be dwelt with during an assurance mission, it was thus ascertained:

- ✓ The budgetary domain has not been addressed by any assurance mission;
- ✓ 3 assurance missions approached the financial-accounting domain;
- ✓ Public procurements have not been addressed by any assurance mission;
- ✓ 2 assurance missions approached the human resources domain;
- ✓ IT has not been addressed by any assurance mission;
- ✓ 1 assurance mission approached the juridical domain;
- ✓ Community funds were not included in any assurance mission;
- ✓ 2 assurance missions focussed on the entity specific functions;
- ✓ SCM/SCIM activities were not addressed by any assurance mission;
- ✓ 3 assurance missions approached other domains.

During the public internal audit missions carried out during 2021, no irregularities were found at the level of the subordinated entities and no misappropriated recommendations were found. Regarding the supervision of the implementation of the recommendations, this activity refers to the recommendations made by the internal audit structure within the assurance missions from previous years, and for which the public internal audit structure has the obligation to supervise the implementation method. In this context, during 2021, a number of 97 recommendations were followed, with the following results:

- ✓ 22 recommendations implemented within the set deadline;
- ✓ 29 partially implemented recommendations (ongoing implementation) for which the established implementation deadline has not been exceeded;
- ✓ 46 unimplemented recommendations for which the established implementation deadline was not exceeded.

Domain	Number of recommendations implemented in all	Number of recommendations partially implemented in all subordinated entities	Number of recommendations not implemented in all subordinated entities
--------	----------------------------------------------	------------------------------------------------------------------------------	------------------------------------------------------------------------

	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						
Financial-accounting	2		18		13	
Public procurement					14	
Human resources	2					
Information technology						
Juridical			4			
Community funds						
Entity-specific functions						
SCM/SCIM	7		4		16	
Other domains	11		3		3	
TOTAL 1	22	-	29	-	46	-
TOTAL 2	22		29		46	

1. OPCOM – in 2021, a number of 5 assurance missions were carried out. These public internal audit missions addressed the following areas (according to the UCAAPI methodology):

- ✓ Budgetary field, financial-accounting field, procurement and investment field:
  - assurance mission regarding the evaluation of the activities related to the economic-financial field, investments, procurement, administrative and assets within the Economic Division.
- ✓ Field of functions specific to the subsidiary:
  - an assurance mission regarding the evaluation of the activities regarding the supervision of the functioning of the markets managed by OPCOM, implemented at the level of the Supervision of Managed Markets Operation Department;
  - an assurance mission regarding the evaluation of the activity at the level of Project Development - Implementation Directors.
- ✓ Human resources field:
  - an assurance mission on the evaluation of human resources management activities at the level of the Human Resources Office.
- ✓ - Other domains – anti-corruption (cross-sectoral mission imposed by OIS):
  - an assurance mission on the assessment of the corruption prevention system.

During the public internal audit missions carried out during 2021, no irregularities were found, nor were there any recommendations not adopted by the management of OPCOM S.A. .

Regarding the supervision of the implementation of the recommendations, this activity refers to the recommendations formulated by the internal public audit structure within the assurance missions including those prior to the reference year and for which the public internal audit structure has the obligation to supervise the implementation. In this context, we mention the fact that there were no recommendations issued in the previous year with implementation period in the reference period, and during 2021 a number of 7 recommendations were issued, of which a number of 6 recommendations were implemented in 2021, and a recommendation has a deadline for implementation in the period following the reference year. The implementation situation of the recommendations issued during the reference period is as follows:

Domain	Number of implemented recommendations		Number of recommendations being implemented		Number of non-implemented recommendations	
	During the established term	After the established term	Whose established term	Whose term has been exceeded	Whose established term	Whose term has been exceeded

			has not been exceeded		has not been exceeded	
Budgetary						
Financial-accounting	2		1			
Public procurement						
Human resources	1					
Information technology						
Juridical						
Community funds						
Entity-specific functions						
SCM/SCIM						
Other domains	3					
TOTAL 1	6	-	1	-	0	-
TOTAL 2	6		1		0	

## 2. SMART

At the level of SMART SA in 2021, a number of 3 assurance/regularity missions and 2 ad-hoc missions were carried out.

Taking into account several domains can be dwelt with during an assurance mission, it was thus ascertained:

- ✓ 2 ad-hoc missions approached the financial-accounting field;
- ✓ 1 regularity mission approached the field of human resources;
- ✓ 1 regularity missions approached the legal field;
- ✓ 1 regularity missions addressed other domains.

No irregularities were found during the internal audit missions carried out during 2021. All recommendations have been adopted.

Regarding the supervisions of the implementation of the recommendations from the previous years, respectively 2020:

- ✓ 1 partially implemented recommendation (ongoing implementation) for which the newly agreed implementation deadline has not been exceeded.

During 2021, a number of 22 recommendations were supervised, with the following results:

- ✓ 1 recommendation implemented within the established deadline.
- ✓ 21 partially implemented recommendations (ongoing implementation), of which:
  - 20 recommendations for which the established implementation deadline was not exceeded;
  - 1 recommendation for which the newly agreed implementation deadline was not exceeded.

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 has not been exceeded	Whose term has been exceeded	Whose established term has not been exceeded	Whose term has been exceeded
Budgetary						
Financial-accounting			17			
Public procurement						
Human resources	1					
Information technology						
Juridical			4			
Community funds						
Entity-specific functions						
SCM/SCIM						
Other domains			1			
TOTAL 1	1	-	22	-	-	-
TOTAL 2	1		22		-	

3. TELETRANS – in 2021, a number of 3 assurance missions were carried out. Taking into account several domains can be dwelt with during an assurance mission, it was thus ascertained:

- ✓ 0 assurance missions approached the budgetary field;
- ✓ 2 assurance missions approached the financial-accounting field;



- ✓ 0 assurance missions approached the field of public procurement;
- ✓ 0 assurance missions approached the field of human resources;
- ✓ 0 assurance missions approached the IT field;
- ✓ 0 assurance missions approached the legal field;
- ✓ 0 assurance missions approached the field of community funds;
- ✓ 0 assurance missions approached the field of entity specific functions.
- ✓ 0 assurance missions approached the SCM/SCIM field;
- ✓ 1 assurance mission approached the field of corruption prevention;
- ✓ Other assurance missions addressed other domains.

During the internal audit missions carried out during 2021, a number of 0 irregularities were found.

There was no case for formulating recommendations not adopted by the subsidiary management.

Regarding the supervision of the implementation of the recommendations, during 2021 a number of 67 recommendations were supervised with the following results:

- ✓ 5 recommendations implemented, within the established deadline;
- ✓ 6 recommendations partially implemented (ongoing implementation), within the established deadline;
- ✓ 46 unimplemented recommendations for which the established implementation deadline was not exceeded.

The objective of supervising the recommendations is both to ensure that the recommendations presented in the internal audit report are implemented exactly on time and in an effective manner, and to assess the consequences of non-implementation. After submitting the Action Plan for the implementation of the recommendations of the audited structure, the internal auditors verify the implementation of the recommendations within the established deadlines, updating the Monitoring Sheet for the implementation of the recommendations, corresponding to the information of the audited structure. The implementation of this action involves the preparation of a half-yearly report on the state of implementation of the recommendations developed in the internal audit reports.

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 has not been exceeded	Whose established term has been exceeded	Whose established term has not been exceeded	Whose established term has been exceeded
Budgetary	-	-	-	-	-	-
Financial-accounting	-	-	-	-	13	-
Public procurement	-	-	-	-	14	-
Human resources	-	-	-	-	-	-
Information technology	-	-	-	-	-	-
Juridical	-	-	-	-	-	-
Community funds	-	-	-	-	-	-
Entity-specific functions	-	-	-	-	-	-
SCM/SCIM	7	-	4	-	16	-
Other domains	8	-	2	-	3	-
TOTAL 1	15	0	6	0	46	0
TOTAL 2	15		6		46	

## I.6.2. Carrying out counseling missions in 2021

### ❖ In NPG Co. Transelectrica S.A.

In 2021, no formalized counseling missions were carried out. However, the Public Internal Audit structure provided advice throughout the year to those who requested it. Thus, during the missions performed, clarifications were provided regarding various legal provisions and / or the operational procedures in force. Various requests for clarification from subsidiaries or organizational entities within the Company were also promptly responded to.

### ❖ In the subsidiaries of NPG Co. Transelectrica S.A.

1. OPCOM – no advisory missions were carried out.
2. SMART – it was not the case.

3. TELETRANS – a single advisory mission was carried out, having as subject “Evaluation of the activity flows within the structures of Teletrans Executive branch”. Taking into account several domains can be dwelt with during an advisory mission, it was thus ascertained:
- ✓ 0 advisory missions approached the budgetary field;
  - ✓ 0 advisory missions approached the financial-accounting field;
  - ✓ 1 advisory mission addressed the field of public procurement;
  - ✓ 0 advisory missions approached the field of human resources;
  - ✓ 0 advisory missions approached the IT field;
  - ✓ 0 advisory missions approached the legal field;
  - ✓ 0 advisory missions approached the field of community funds;
  - ✓ 1 advisory missions addressed the field of functions specific to the entity (technical and sales);
  - ✓ 0 advisory missions approached the SCM/SCIM field;
  - ✓ An advisory mission addressed the field of corruption prevention;
  - ✓ Other advisory missions addressed other domains.

During the internal audit missions carried out during 2021, a number of 0 irregularities were found and there was no case of the wording not mastered by the subsidiary management.

### **I.6.3. Evaluation missions of internal audit activities**

#### **❖ In NPG Co. Transelectrica S.A.**

In 2021, an evaluation mission was carried out, according to the Plan of public internal audit missions for 2021, at TELETRANS S.A. .

#### **❖ In the subsidiaries of NPG Co. Transelectrica S.A.**

Not applicable.

## **I.7. Conclusions**

### **I.7.1. Conclusions regarding the public internal audit activity carried out within NPG Co. Transelectrica S.A.**

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 2021 targeted and led to:





- ✓ more efficient knowledge and application of the legislation, procedures and instructions related to the audited activities;
- ✓ identification and correction of sanctionable deficiencies by external control bodies;
- ✓ eliminating the negative aspects from the audited activities in order to reduce the conditions of occurrence of risks;
- ✓ greater attention to the application of the regulations in force regarding the administration and management of the assets in the patrimony of the audited entities;
- ✓ improving the way of working regarding the issuance/participation in the issuance of site approvals and technical connection approvals, as well as in the realization of RET connection contracts, location contracts and coexistence contracts;

- ✓ increased attention to the application of internal regulations regarding the analysis and acceptance of documentation, the organization and conduct of CTA meetings, as well as the issuance of CTA endorsements and monitoring the implementation of observations;
- ✓ improving the way of working regarding the operation and maintenance of the car fleet;
- ✓ greater attention to compliance with the regulations in force regarding the provision of physical protection and management of emergency situations;
- ✓ improving the way of working regarding the conclusion of utility agreements, as well as the development and settlement of utility services;
- ✓ greater attention to the application of the regulations in force regarding the organization by FORMENERG of the ANC accredited courses and with transferable credits, as well as to their settlement;
- ✓ improving the way of working regarding the development of the contracts related to the realization of the OSH Program, respectively to the organization and development of the occupational medicine activity;
- ✓ increasing the communication between the Company's entities;
- ✓ improving the internal control system related to the audited entities and activities.

#### **I.7.2. Conclusions related to the public internal audit activity carried out within the Company's subsidiaries**

OPCOM	The internal audit structure was functional with full-time staff, according to the legal provisions in force. The activities carried out are procedural and comply with the public internal audit methodology. The Specific Activity Rules and the Internal Audit Charter at the branch level are also applied. The Quality Insurance and Improvement Programme (PAIC) is being implemented. The activity carried out in 2021 was planned, according to the legal provisions. The annual public internal audit plan for 2021 has been fully implemented. Planned assurance missions were completed on time.
SMART	The internal audit activity contributed to the addition of value within the branch through the recommendations made through the missions carried out. These recommendations determined the audited structures to improve their activities, to improve their internal communication and the internal managerial control system. Thus, from one audit to another, progress and increases in the revision of internal procedures and rules have been noted in the latest legislative changes with adaptation and practical applicability. In the opinion of both the auditor and the management of the branch, they were appreciated.
TELETRANS	The internal audit missions aimed to formulate recommendations for removing malfunctions and improving the activities of the audited structures, so that their efficiency and effectiveness increase, which will ultimately contribute to achieving the objectives set by the Company.

#### **I.8. Proposals for improving the public internal audit**

	<p><b>Transelectrica</b></p> <ul style="list-style-type: none"> <li>• Ensuring a level of remuneration of internal auditors corresponding to the hierarchy of this position within the remuneration system of the Company.</li> <li>• Conducting regular meetings or discussions of internal auditors with the Company's management, in order to operatively clarify certain issues as well as the expectations of the top management regarding the public internal audit activity.</li> <li>• Permanent increase of the professional quality of the human resource. Consequently, professional training for API staff will be taken into account, both by participating in professional development courses and by self-training, by going through topics appropriate to the professional level.</li> <li>• The need for a permanent collaboration from a methodological point of view and guidance between the public internal audit structure at the hierarchically higher level.</li> </ul>
	<p><b>OPCOM</b></p> <ul style="list-style-type: none"> <li>• As mentioned in the previous chapters, the main action to improve the internal public audit activity at the company level refers to increasing the professional quality of human resources.</li> <li>• Consequently, in 2022, the professional training for the staff of the Internal Audit Office will be taken into account, both by participating in accredited courses in the field of public internal audit and by self-training, by completing topics appropriate to the professional level, approved by the Head of the Internal Audit Office, according to the Quality Insurance and Improvement Programme.</li> </ul>
	<p><b>SMART</b></p> <ul style="list-style-type: none"> <li>• 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 the economic activity and forms of organization, as well as a close collaboration with the Internal Audit structure within Transelectrica.</li> </ul>
	<p><b>TELETRANS</b></p> <ul style="list-style-type: none"> <li>• Maintaining an adequate professional training of internal auditors, which involves participating in professional training courses given by specialists in the field.</li> <li>• The improvement of the internal audit activity aims at the content of the procedural framework, as well as the development of a permanent professional collaboration, from a methodological point of view and guidance, between the internal auditors at Teletrans level and the Transelectrica auditors.</li> </ul>

## II. Report on the risk management process and performance monitoring Within NPG Co. Transelectrica S.A. in 2021

### II.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 2021 the Company's organisation and operation framework was consolidated as necessary to implement and develop the internal managerial control system, based on:

- ✓ Internal procedure: Risk Management, Edition 1, Revision 1;
- ✓ 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);
- ✓ Organisation and operation regulation of the Monitoring commission for the Company's internal / managerial control;
- ✓ The structure, attributions and responsibilities of the Monitoring commission meant to implement the Internal / Managerial control system within the Company;
- ✓ The structure of the Technical Secretariat of the Monitoring commission to implement the Internal / Managerial control system (CM SCIM).

The Internal / Managerial Control Monitoring Committee coordinates the process of updating the general and specific objectives of the procedural activities, the risk management process, the performance monitoring system, the status of the procedures and the monitoring and reporting system to the Company's management. The risks related to the

activities are identified and evaluated at the level of each organizational entity in the Company (unit, management, department, territorial unit of transport), in accordance with the elements of the *Risk Register*; significant risks are centralized by the Critical Infrastructure - Risk Management Department in the *Risk Register of the Company*. The Monitoring Committee analyzes and prioritizes the significant risks that may affect the achievement of the Company's objectives, by establishing the risk profile and the risk tolerance limit, annually.

Based on the *Company-level Risk Register*, the Chairman of the Risk Management Team proposes the risk profile and the risk tolerance limit, which are analyzed and approved by the Monitoring Committee and approved by the Company's Management Board. Together with the *Risk Register*, the managers of the organizational entities in the Company send the control measures for significant risks to the Chairman of the Risk Management Team at Company level, who annually prepares the *Plan for implementing the control measures for significant risks at Company level*. The plan is reviewed by the Monitoring Committee and approved by the Company's Management Board.

The Technical Secretariat of the Monitoring Commission shall submit the approved Action Plan to the departments responsible for significant risk management for implementation. Based on the *annual reports* on the development of the risk management process and the monitoring of performance at the organizational entity level (reports submitted by the heads of the organizational entities), the Chairman of the Risk Management Team submits a report to the executive management of the Company on risk management and performance monitoring at the level of the Company which includes an analysis of the risks identified and managed within Transelectrica.

Within Transelectrica, the risks that could have a substantial impact on the achievement / fulfillment of the Company's objectives are managed in accordance with the operational procedures specific to the current activities as well as the procedure specific to *Risk Management*. Thus, it is ensured the continuous improvement of the way of carrying out the stages related to the risk management process, respectively the identification, evaluation, establishment of the management strategy, monitoring of the implementation of control measures and periodic 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.

In 2021, the main documents regarding the risk management activity, elaborated at the level of the Company, in order to facilitate the achievement of the Company's objectives, in conditions of economy, efficiency, effectiveness and fulfillment of the legal requirements, were:

- ✓ *2021 risk register for significant risks identified in NPG Co. Transelectrica S.A .;*
- ✓ *INFORMATION NOTE on the development of the risk management process and performance monitoring at the level of NPG Co. Transelectrica S.A., endorsed by the Chairman of the Monitoring Committee, approved by the Directorate;*
- ✓ *Risk Register 2021, Significant risks: important and critical at Company level - prioritization;*
- ✓ *The 2021 Implementation Plan of the control measures, for the significant risks at Company level.*

In accordance with the internal regulations, the Chairman of the Risk Management Team at Company level initiated the elaboration of the annual report, requesting from the management of the organizational entities, the documentation prepared and approved, at the organizational entity level. Based on the information received, the following were prepared:



- ❖ 2022 risk register for significant risks identified in NPG Co. Transelectrica S.A.;
- ❖ The 2021 implementation plan of the control measures on the significant risks at Company level which together with the Report on the elaboration of the “2022 Risk Register NPG Co. Transelectrica S.A.” and the “2022 Implementation plan of control measures” for the significant risks at the Company level were submitted to the Directorate for approval.

## **II.2. Risk analysis related to activities - in 2021**

In the process of updating the Risk Register at Company level, it was found that the risk exposure was maintained at the level of the previous year, the residual risks, compared to the previous assessment, generally remaining at the same level.

The risks identified in previous years are kept under proper control; however, risk exposures related to investment and procurement activities remain high.

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

### **II.2.1. Risks that occurred in 2021:**

- Investment risk: the difficult financial situation SMART subsidiary is facing has been the subject of several information materials to the management of Transelectrica. The financial activity of the subsidiaries is monitored, elaborating, every quarter, the Activity Report of the subsidiaries;
- The risk of non-collection of sums of money as a result of the execution of the guarantee instruments that were the basis for guaranteeing the advances received by the executors within the investment projects;
- Difficult process of procurement of works from the RET Maintenance Program;
- Difficult process of procurement of works from the Annual Investment Program. Related to this process, the managed risks were re-evaluated, the probability of materialization of the managed risks increasing from a medium to a high level. The commercial departments with working point at TTU are directly subordinated to the director of the Commercial Division (CD) within the Executive branch, respectively the risks identified at the level of commercial departments are managed at CD level.

Following the modification of the organizational structure of the Company, the following aspects were identified at the level of the Commercial Division, which hindered the activity, and increased the risk in carrying out the activity:

- ✓ Large number of documents that require verification / endorsement / approval by the director of the Commercial Division;
- ✓ The large number of supporting notes to addenda that require verification / endorsement.

Improper sizing of the number of employees, increasing the volume of documents requiring verification / endorsement / approval of procurement documentation, the large number of supporting notes for additional documents sent for approval without proper preparation, and the long time required to complete the award procedures, respectively from the moment of sending the notice of participation in SEAP until the signing of the contract (caused by the large number of requests for clarification especially at the time of pre-bidding, by the changes in the terms of reference resulting from requests for clarification received from potential bidders during the pre-bidding period, by the volume and complexity of bids submitted, etc.) led to the materialization of the risk of failure to make timely purchases, respectively incomplete implementation of the RET Maintenance Programme, the Annual Investment Programme.

- Significant risks occurred at the level of territorial transmission units, respectively: damage/failure/unavailability of 220 kV and 400 kV OHLs, primary equipment in transformer substations, transformer units and / or shunt reactors, protection and automation systems, control-monitoring (SCC) control systems, direct current and alternating current service installations, fire prevention and extinguishing installations, communication / telecommunication systems, etc.

### **II.2.2. The main risks identified at Company level**

❖ **Technical and operational risks**

- ✓ Deficiencies when scheduling SEN operation and congestion management;
- ✓ Breakdowns of telecommunication services for SEN operation;
- ✓ Failures/unavailability of installations and equipment;
- ✓ 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 S.A.;
- ✓ 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;
- ✓ 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 OTC.

❖ **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.

❖ **Environment and personnel risks**

- ✓ Difficulties / deficiencies of recruitment, professional training and personnel motivation,
- ✓ Improper personnel recruitment,
- ✓ Non- or incomplete achievement of the Annual professional training programme,
- ✓ Impact over the personnel's health and security
- ✓ Environmental pollution, improper waste management,
- ✓ 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,
- ✓ Human risk is a risk determined by human errors (errors in human-computer interaction, repeatability of operations). Regarding the human risk caused by human errors, in order to limit its effects, additional checks are proposed, the use of models and dedicated software - where possible, control keys implemented in the models / software and the conclusion of insurance for risk outsourcing,
- ✓ During 2021, the human risk was also determined by the spread / contact of the SARS-CoV-2 virus, a risk that was managed by vaccinating staff, applying the provisions and recommendations contained in the related

legislation, respectively the decisions issued by the Company's Directorate. The continuity of the activity of NPG Co. Transelectrica S.A. was not affected by the impact generated by the epidemiological context following the spread of COVID - 19, although the pandemic generated by the SARS-CoV-2 virus affected the entire Romanian territory where NPG Co. *Transelectrica* S.A. facilities are located.

As the core activity of NPG Co. Transelectrica S.A., 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, special priority and attention was paid to the safety and health criteria of employees, as well as to the continuity of strategic functions for SEN, as a transmission system operator.

In 2021, even in unfavorable circumstances - **pandemic**, the activity was fully ensured and maintained, at the level of the Company being established and applied technical-organizational measures to prevent, combat and limit the effects of SARS-CoV-2 virus spread. Throughout the pandemic, the Company, through and with the help of the leaders of the organizational entities, ensured the continuity of electricity transmission.

The legal provisions were applied exactly and measures were taken to identify, isolate, monitor and report the detected cases and the activities were reorganized, so as to ensure the continuity of the activity and the support for the affected personnel. During the peak periods of the pandemic, the activity was carried out in a work-from-home regime, and throughout the year 2021, measures were instituted to limit the spread of the virus.

### II.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 136 risks identified in the EXECUTIVE branch, with the values of inherent and residual exposures, as follows:
  - Inherent risks: 66 low and 70 significant; and of the significant ones, 41 are average and 29 high.
  - Residual risks: 92 low and 44 significant; and of the significant ones, of which 38 average and 6 high.
- ✓ The Risk Centraliser and Matrices include 120 similar risks identified in the territorial transmission units (TTU) with the values of inherent and residual exposures, as follows:
  - Inherent risks: 38 low and 82 significant; and of the significant ones, 81 are average and 1 high.
  - Residual risks: 115 low and 5 significant, of which 5 average and 0 high.

TTU Constanța assessed the risk "Achieving Annual Investment Program below the scheduled quantitative or qualitative levels" with HIGH exposure, as an inherent risk, and by applying control measures, it acted to reduce the probability of occurrence, becoming MEDIUM, as residual risk.

### II.3. Risk control. Actions

The actions established for the control of risks 2021 were included in the document *Plan for the implementation of control measures for significant risks*, drawn up at the level of each organizational entity within the Company. At the Company level, the Plan for the implementation of control measures has been drawn up. The stage of its fulfillment being followed within the guidance and control actions of the Risk Management and Control Group.

The actions taken to control the risks, mainly in 2021, decreased the probability of materialization and the impact of the risk, compared to the level of inherent risks.

The materialized risks were treated in accordance with the adopted strategy, imposed by the circumstances that favored the occurrence of the risk.

Establishing a risk management strategy involves:

1. acceptance of risk,
2. risk monitoring,
3. addressing the risk of elimination / reduction to an acceptable level through measures,
4. risk outsourcing through: insurance, outsourcing, other contracts with third parties and carried out by each organizational entity (unit, management, department, territorial transport unit), by identifying the most appropriate and feasible risk management actions and in accordance with their management responsibilities, so as to record the lowest possible risk exposure values in the internal and external context.

In order to prevent the impact of the activity at the level of the Company, additional technical-organizational measures have been ordered to prevent, combat and limit the effects of the spread of SARS-CoV-2 infections.

The documents developed and applied, regarding the technical-organizational measures for preventing, combating and limiting the effects of SARS-CoV-2 virus transmission have been updated according to the applicable legislative changes at the level of economic authorities / operators.

Mostly, the strategies consisted of:

1. addressing the risk for elimination / reduction to an acceptable level through measures and
2. risk monitoring.

Among the internal control tools used, we mention:

- ✓ measures within the procurement / maintenance / investment / professional training programs of the staff;
- ✓ elaboration or revision of procedures;
- ✓ changing the procedural and structural organization;
- ✓ performance indicator attached to the objective;
- ✓ redistribution of staff;
- ✓ setting up or updating databases.


In the event of risks materializing, control and verification measures for similar situations have been intensified to prevent the risks from materializing or the occurrence of new risks. Control measures are fully implemented or being implemented.

For the year 2022, the actions established for the control of the risks are included in the document *Plan for the implementation of the control measures 2022*, for the significant risks at Company level, approved by the Directorate. It includes for each risk: causes, estimation of inherent risk (probability and impact), control measures - prevention, deadlines and responsible persons, consequences, control measures to limit the consequences, deadlines and responsible persons, residual risk estimation (probability and impact), risk management entities.

The risk management activity, in 2021, was carried out properly, at the level of the entire Company, fully and timely complying with the legal requirements and internal regulations. However, for major risks related to delays in the implementation of the Annual Sectoral Procurement Program, it is necessary to identify and implement drastic measures and use all legal levers to make it possible to increase the implementation of these programs.

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.

**Audit Committee of the Supervisory Board**, consisting of:

Chairman of the Audit Committee	– Victor Florin DUMITRIU	_____
Member of the Audit Committee	– Mihaela POPESCU	_____
Member of the Audit Committee	– Adina-Loredana DOGARU-TULICA	_____
Member of the Audit Committee	– Marius Vasile MORARIU	_____