



CNTEE TRANSELECTRICA SA

QUARTERLY REPORT

January – March

2015

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**QUARTERLY REPORT ON THE ECONOMIC – FINANCIAL ACTIVITIES OF THE CNTEE
TRANSELECTRICA SA**

**according to the provisions of article 227 of Law 297/2004 on the capital market and of Annex
30 from Regulation nr.1/2006 of CNVM issued by the National Securities Commission,
currently the Financial Supervision Authority (ASF)**

for the period ended 31 March 2015

Date of the report:	15 May 2015
Name of trading company:	CNTEE TRANSELECTRICA SA, managed under two-tier system
Registered headquarters:	Bucharest 1, Blvd. Gen. Gheorghe Magheru no. 33, postal code 010325
Working location:	Bucharest 3, Str. Olteni no. 2 - 4, postal code 030786
Phone / fax:	004021 303 5611/ 021 303 5610
Code with the ORC:	13328043
Number in the RC:	J40/8060/2000
Date of Company establishment:	31.07.2000/OUG 627
Share capital:	733,031,420 Lei, subscribed and paid
Regulated market where the issued securities are transacted:	Bucharest Stock Exchange (BSE), category Premium
Main features of the issued securities:	73,303,142 shares of 10 Lei / share nominal value in dematerialised, nominative, ordinary, indivisible, freely transactable form as of 29.08.2006 under the symbol TEL 20,000 bonds of 10,000 Lei / bond nominal value, which are nominative, dematerialised and unsecured bonds transacted on the BSE, Credit Titles section-Category 3 Corporative bonds, under TEL 18 symbol in this category; maturity date 19.12.2018
Total market value:	2,089,139,547 Lei (28.50 Lei / share on 31.03.2015)
Accounting standard applied:	International financial reporting standards
Audit:	The financial statements elaborated on 31.03.2015 have not been audited

STATEMENT OF RESPONSIBLE PERSONS

In accordance with article 113 letter D par 1 from Regulation 1/ 2006 of CNVM added by Regulation 31/ 2006, we declare as follows:

- To the best of our knowledge the financial-accounting statements for the three months' period ended 31 March 2015 have been prepared in accordance with the applicable accounting standards (International Financial Reporting Standards as approved by the European Union) and they provide fair truthful image of the assets, obligations, financial position, profit and loss account of the CNTEE Transelectrica SA.
- This report includes accurate complete information with respect to the economic-financial situation and the activities of the CNTEE Transelectrica SA.

Bucharest, 12 May 2015

Directorate,

Ion-Toni TEAU
Directorate Chairman

Constantin VADUVA
Member

Octavian LOHAN
Member



Key figures

FINANCIAL			
Q1	779 Mill. Lei	▲ 11% y/y	Revenues
Q1	229 Mill. Lei	▼ 7% y/y	EBITDA
Q1	126 Mill. Lei	▼ 7% y/y	Net profit
Q1	14.02 TWh	▲ 4% y/y	Billed energy**

INVESTMENTS			
Q1	29.7 Mill. Lei	▼ 48% y/y	Procuring property, plant & equipment & intangible assets
Q1	6.769 Mill. Lei	▼ 71% y/y	Non-current assets recorded in accounting books

OPERATIONAL		
2.47* %	▼ 1,5% y/y	Technical losses
14.37 TWh	▲ 2% y/y	Transmitted energy**

CPT Technological consumption (losses)

* The share of technological losses in the amount of electricity input into the transmission grid (transmitted energy)

** Billed quantity is defined by the amount of electricity taken out of the electrical networks of public interest (the transmission grid and distribution networks) less the electricity exports, thus its outline is different from the amount of power physically carried in the transmission grid (transmitted energy)



Financial data

The synthesis of financial results on 31 March 2015 is provided in the tables below. The financial results have not been audited and their extended variant of the same period is provided in the Annexes to this Report.

Separate profit and loss account

Million Lei	Q1 2015	Q1 2014
Billed volume of energy (TWh)	14,02	13,48
PROFIT ALLOWED ACTIVITIES		
Operational revenues	390	365
Operational expenses	-143	-136
EBITDA	248	229
Amortisement	-80	-82
EBIT	167	147
ZERO PROFIT ACTIVITIES		
Operational revenues	389	334
Operational expenses	-407	-316
EBIT	-19	18
ALL ACTIVITIES (ALLOWED AND ZERO-PROFIT)		
Operational revenues	779	699
Operational expenses	-550	-452
EBITDA	229	247
Amortisement	-80	-82
EBIT	149	165
Financial result	1	-3
EBT (gross profit)	150	162
Income tax	-24	-25
Net profit	126	136

Separate statement of the financial position

Million Lei	31.03.2015	31.12.2014
Non-current assets		
Property, plant and equipment	3.329	3.388
Intangible assets	38	40
Financial assets	57	57
Total	3.424	3.484
Current assets		
Inventories	36	36
Trade and receivables	843	1.056
Cash and cash equivalents	840	865
Total	1.718	1.957
TOTAL ASSETS	5.142	5.441
Shareholders' equity	2.941	2.813
Non-current liabilities		
Borrowings	715	792
Other liabilities	603	610
Total	1.318	1.402
Short term liabilities		
Borrowings	202	201
Other liabilities	681	1.025
Total	883	1.226
Total liabilities	2.201	2.628
EQUITIES and LIABILITIES	5.142	5.441

OPERATIONAL RESULTS

Billed volume of energy

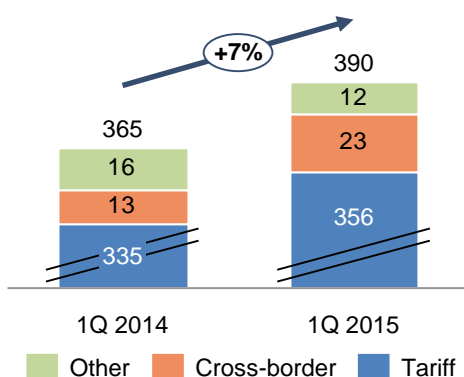
In the period Jan – March 2015 the quantity of electricity billed for the services provided on the electricity market grew **4.0%** as to the billed quantity in the same period last year (14.02 MWh, increasing from 13.48 MWh in Q1 2014).

Operational revenues

Revenues obtained in the first 3 months of 2015 increased **11.5%** compared to the same period last year (779 mill. Lei in Q1 2015 from 699 mill. Lei in Q1 2014), increases being recorded in both operational segments (profit allowed and zero-profit activities).

The **profit allowed activities** recorded revenue increase by 7.1% (390 mill. Lei from 365 mill. Lei in Q1 2014), sustained by higher electricity volumes carried in the electrical networks of the SEN, mainly against a background of substantial growth of electricity exports. Besides the revenues from the transmission fee when electricity is introduced (exported) into networks, the higher level of exports intensified the competition on the market allocating the cross-border interconnection capacities (especially along the Hungarian and Serbian borders), which resulted in significant 71.2% increase of revenues from the allocation of interconnection capacities compared to the same period last year.

Operational revenues from profit allowed activities
(mill. Lei)



Total revenues from **zero-profit activities** recorded significant 16.3% increase (389 mill. Lei from 334 mill. Lei in Q1 2014) produced by the significant growth with 37.6% of revenues from the balancing market administration, thus compensating the slight decrease of 1.9% in the technological system services.

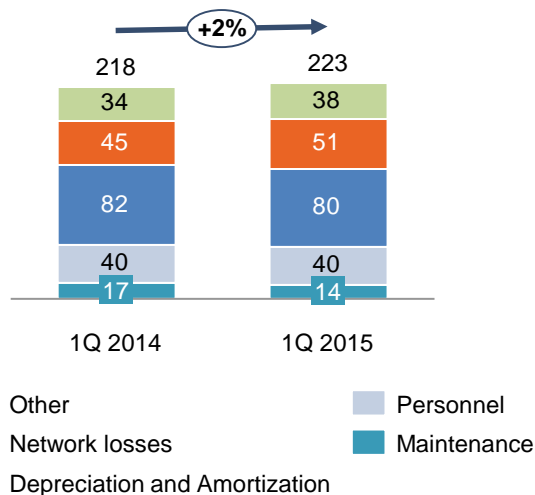
In the first three months of 2015 the revenues from technological system services decreased against the results of Q1 2014, in amount of about 3.5 mill. Lei mainly resulting from the reduced fees applicable to such services beginning with 01 July 2014.

Operational expenses

Expenses (including amortisement) made in Q1 2015 increased **18.0%** compared to the same period of last year (630 mill. Lei from 534 mill. Lei).

The expenses in the **profit allowed activities** segment (amortisement excluded) increased **5.2%** (143 mill. Lei from 136 mill. Lei).

Operational expenses of profit allowed activities
(mill. Lei)



CPT: The total cost for procuring electricity necessary to cover technological losses increased 11.6% in Q1 2015 compared to Q1 2014. The determining factor of such cost rise in Q1 2015 was the 2.1% increase in the average unit cost of

procurement transactions on the markets, from 182.1 Lei/ MWh in Q1 2014 to 185.9 Lei/ MWh.

In quantitative terms technological losses grew (from 256 GWh in Q1 2014 to 272.6 GWh in Q1 2015 in absolute magnitude from 2.44% in Q1 2014 to 2.47% in 2015 compared to the energy input in the grid) mainly against the background of increased power carried within the ETG.

The **zero-profit activities** segment recorded expenses rise by about **29%** (407 mill. Lei from 316 mill. Lei in Q1 2014), determined by increased expenses both on the balancing market and upon procuring the power reserves needed in order to balance the national power system (the prices which Transelectrica procures most power reserves with in order to provide technological system services are established by ANRE).

Operational profit

EBITDA dropped about **7%** compared to the same period of 2014 (229 mill. Lei in Q1 2015 from 247 mill. Lei in Q1 2014), such movement being primarily determined by the influence of the zero profit activities.

Profit allowed activities have got positive result, 8% higher than that obtained in the same period of 2014 (247 mill. Lei to 229 mill. Lei in the previous year).

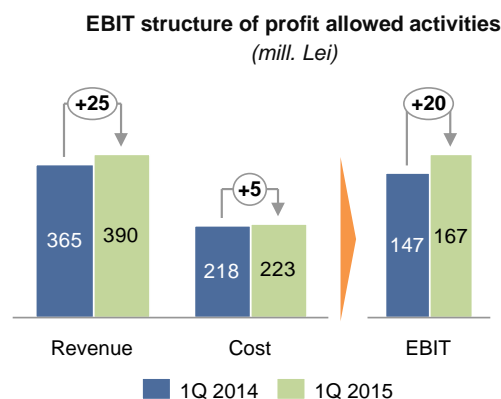
Zero-profit activities recorded negative result of 19 mill. Lei compared to Q1 2014 (with positive result of 18 mill. Lei).

The non-null (loss) result of zero-profit activities was determined by the temporary imbalance between the procurement costs of system reserves and the revenues from tariffs for technological system services.

Also the net result corresponding to the technological system services has got negative influence from the ANRE adjusted tariff for such services (▼5.6%, 12.54 Lei/ MWh from 13.28 Lei/ MWh); the new tariff included the negative correction established on 1 July 2014.

EBIT dropped by about **10%** (149 mill. Lei from 165 mill. Lei), decrease primarily owed to the zero

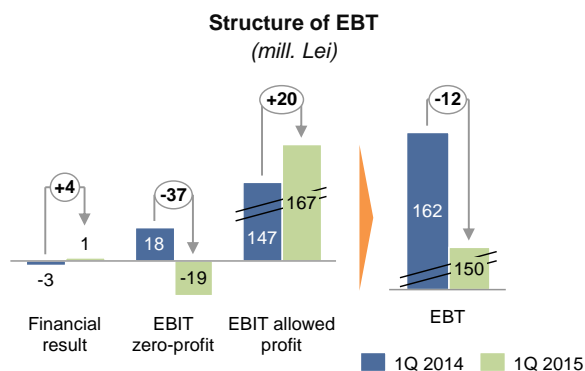
profit activities when amortisement diminished by about 2% compared to the same period of 2014.



Gross profit

Profit before tax registered decrease of about **7%** compared to Q1 2014 (150 mill. Lei from 162 mill. Lei).

The difference between the profit registered in Q1 2015 and in Q1 2014, broken down into the constitutive elements of profit, is provided below.



Net profit

Profit after tax registered about **7%** decrease compared to the Jan-March 2014 period (126 mill. Lei from 136 mill. Lei).

FINANCIAL RESULT

The net financial result registered in Q1 2015 was positive (1 mill. Lei) determined by 24.6% higher

revenues from exchange rate differences, the 16% decrease of interest expenses and by the 24.6% reduction of expenses with exchange rate differences due to the positive development of the Romanian Leu compared to the main international currencies.

[mill. Lei]	Q1 2015	Q1 2014
Financial revenues	14.7	14.0
Interest revenues	1.6	3.6
Exchange rate revenues	12.8	10.3
Other financial revenues	0.2	0.1
Financial expenses	-13.5	-16.9
Interest expenses	-7.8	-9.2
Exchange rate expenses	-5.8	-7.6
Net financial result	1.2	-2.9

FINANCIAL POSITION

Non-current assets

Non-current assets registered about 1.7% decrease in Q1 2015 against the background of reduced investment volume, lower than the amortisement of non-current assets.

Current assets

Current assets registered 12.2% decrease in the first three months of 2015, from 1,957 mill. Lei to 1,718 mill. Lei, determined by the significant 20.2% drop of liabilities from 1,056 mill. Lei to 843 mill. Lei. The decrease of liabilities was primarily determined by the higher collection degree compared to 2014, mainly the receivables related to the support scheme (136.8 mill. Lei on 31 March 2015 from 237.2 mill. Lei on 31 December 2014).

Liabilities

Non-current liabilities registered slight decrease in 2015 from 1,402 mill. Lei to 1,318 mill. Lei, mainly determined by the reimbursement of principal portions from 792 mill. Lei to 715 mill. Lei on 31 March 2015.

Short term liabilities registered decrease on 31 March 2015 from 1,226 mill. Lei to 883 mill. Lei due to the smaller liabilities to suppliers on the electricity market. Such decrease in the liabilities to the suppliers on the electricity market was determined by the diminished volume of transactions on the balancing market and of the payment obligations on balance as at 31 March 2015 on the electricity market compared to 31 December 2014. Also the reduced balance of suppliers of assets on 31 March 2015 compared to 31 December 2014 resulted from the payment of outstanding invoices on 31 December 2014 at the beginning of 2015.

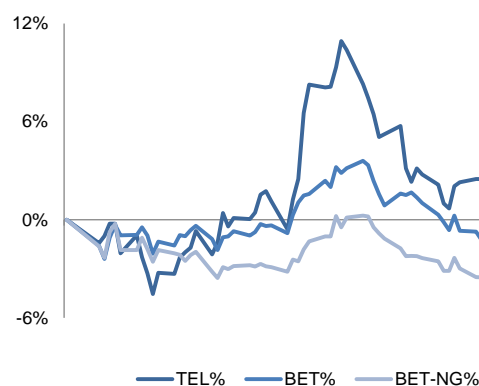
The Company requested the generators that have not paid their overcompensation invoices to agree with compensating mutual liabilities at their minimum level by means of the Institute of Management and Information (IMI) managing all the information received from tax-payers according to the provisions of GD 685/1999.

Shareholders' equities

Shareholders' equities recorded 4.5% increase mainly determined by the positive performance of the financial year, credited to the retained earnings.

DEVELOPMENT OF SHARES

(31-Dec-2014 to 31-Mar-2015)



In the first quarter of 2015 the Transelectrica share (BSE symbol: TEL) decreased 2.6% compared to the value of 31 December, which followed the development of the main BSE indexes, BET (blue-

chip - most liquid and capitalised 10 companies) and BET-NG (energy sector).

with majority state capital based on 75% distribution rate.

DIVIDENDS

In 2014 the gross dividend per share amounting to 2.8033 Lei was approved, payable beginning with June 2015. The dividend was calculated while observing the legislation applicable to companies

Total distributed dividend:	205 mill. Lei
Dividend per share:	2.8033 Lei
Date of ex-dividend:	5 June 2015
Payment date:	29 June 2015



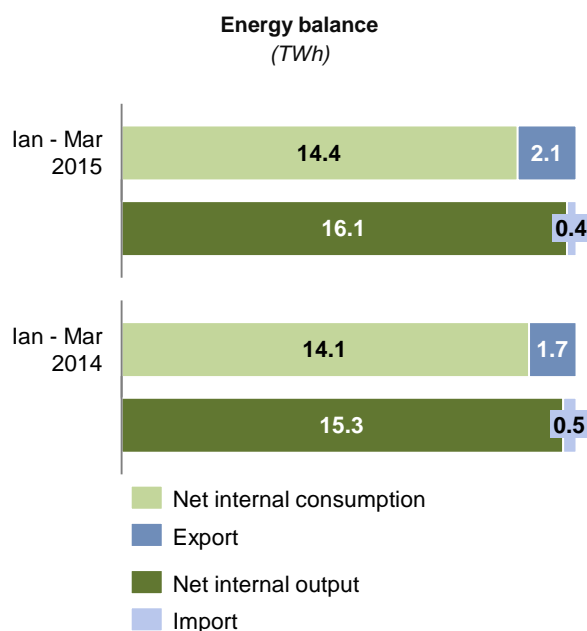
Operational data

ENERGY BALANCE IN THE SEN

In the first quarter of 2015 the net power output increased about 5% compared to the same period of 2014, mainly determined by the higher share of generation from renewable sources (hydro, wind, photovoltaic).

The internal¹ net consumption grew 2% compared to the same period last year.

Physical cross-border exporting exchanges increased 26% in the first three months of 2015 compared to 2014, while import exchanges dropped about 17%.

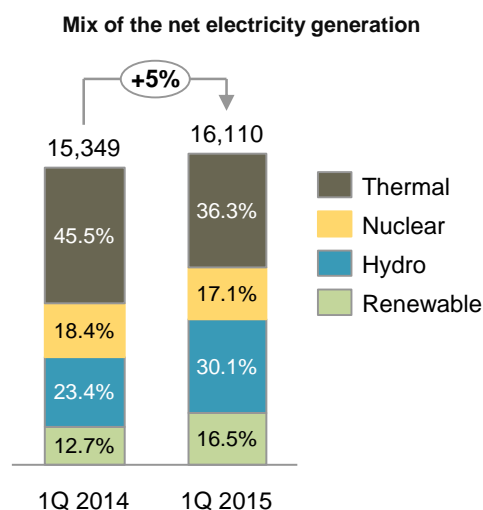


¹ Values do not include the consumption of auxiliary services from the electric power generating plants;

The net consumption value includes the losses in the transmission and distribution networks as well as the consumption of pumps from the pumping storage hydro substations

GENERATION MIX

In Q1 2015 the hydro component grew about 6.7% compared to Q1 2014, while the share of renewable energy (wind, biomass, PV) increased 3.8% to the detriment of nuclear and thermal components that decreased about 1.2% and namely 9.2%.



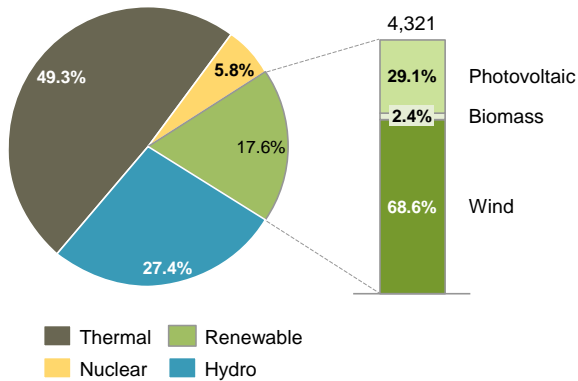
NATIONAL GENERATION FLEET

In the first three months of 2015 the gross installed capacity of power plants increased 2.4% as compared to the same period of last year.

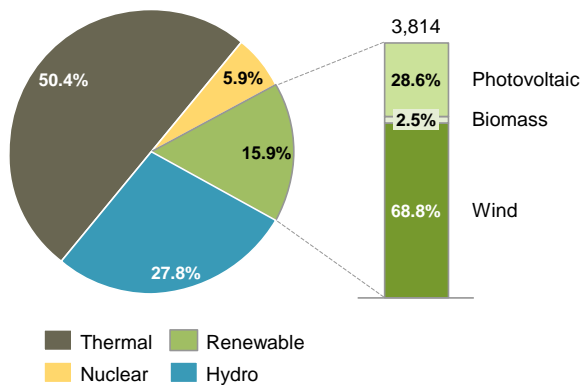
Significant change occurred in the installed capacity because of the 500 MW increase of renewable generation farms, from about 3,814 MW installed at the end of Q12014 to about 4,320 MW installed on 01 April 2015.

The dynamics of the installed capacity associated to the first quarter of 2015, respectively of 2014, is provided below:

Installed capacity in Q1 2015 (24,555 MW, gross value)



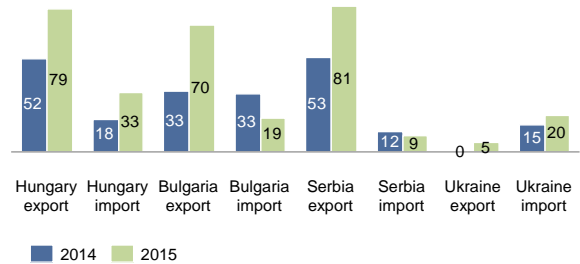
Installed capacity Q1 2014 (23,976 MW, gross value)



CROSS-BORDER FLOWS

Cross-border flows registered significant increase of exports in relation with Hungary and Serbia, the main reasons being the reduced electricity price on the Romanian market and exports to the more expensive markets from Hungary and the Balkans. There was no import / export with the Republic of Moldova in the first quarter of 2015 or in that of 2014.

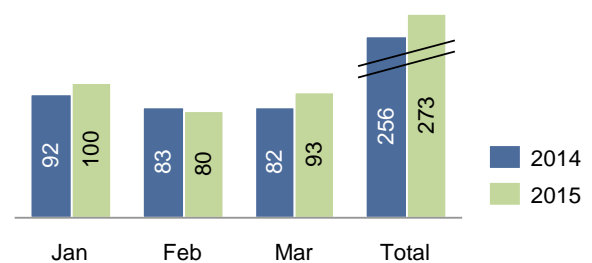
Total allocated capacity (%)



TECHNOLOGICAL CONSUMPTION (LOSSES)

In the first three months of 2015 the CPT amount increased 6.5% compared to the same period of 2014, being determined by elements such as bad meteorological conditions, which generated higher corona losses, and unfavourable generation structure, which led to greater electricity transmission to long distances from sources.

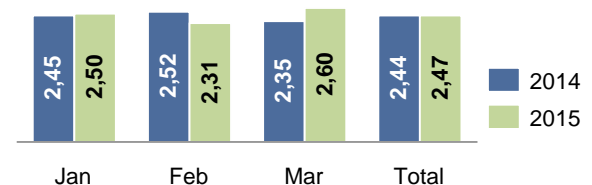
CPT development (GWh)



Compared to the power input in the grid, losses slightly grew from 2.44 % to 2.47 %.

The percentage growth of the CPT resulted from the higher power volumes carried in the ETG.

CPT development (%)





Investments

During the first quarter of 2015 there were 21 contracts signed for investment objectives amounting in total to 5,870.6 thousand Lei compared to 19 contracts amounting totally to 41,864.63 thousand Lei concluded in the same period of 2014.

The value of non-current assets recorded in account books was 6,768.7 thousand Lei in the first three months of 2015, the most important ones being:

- Replacing circuit breakers in the 400 kV bays of substation Smardan;
- Replacing the CB-s of the 110 kV bays of substation Filesti;
- Replacing the 220 V dc battery of accumulators no 2 in substation Iernut;
- Thermal rehabilitation in the offices of the TB Craiova;
- Upgrade and capital repairs to the buildings of the TB Pitesti;
- Refurbishing the 400/220/110/20 kV substation Lacu Sarat, technological and constructive parts;
- ETG connection of the 264 MW WPP Facaeni in the 400/110 kV substation Gura Ialomitei by building a 400 kV bay to connect the 400 kV OHL/UGC and its integration in the command, control, protection, metering system and in the EMS-SCADA

The procurement of property, plant and equipment and intangible assets² amount to 29,744 thousand Lei in the first quarter of 2015 compared to the same period of 2014 when such procurement amounted to 57,260 thousand Lei.

² It includes the fluctuation of asset suppliers on balance as at 1 January this year

From among the investment projects under way on 31 March 2015 we can mention:

- Extending the 400 kV substation Cernavoda, Stage I- replacing 2 shunt reactors;
- Refurbishing the 220/110/20 kV substation Campia Turzii;
- The 400 kV OHL interconnecting Resita (Romania) - Panchevo (Serbia);
- Upgrading the control-protection system in the 220/110 kV substation Tihau;
- Connecting the 110 kV UGC Militari-Domnesti circuits 1, 2 in the 400/110/20 kV substation Domnesti;
- Refurbishing the 400/110/20 kV substation Tulcea Vest;
- Replacing the 220 kV CB from Bucharest South bay (circuit 2), substation Ghizdaru;
- Replacing the 220 kV CB-s in the 220/110/20 kV substation Gradiste;
- Upgrading the control-protection system & the 20 kV station from the 220/110/20 kV substation Vetis;
- Replacing the remote control equipment of the 220 kV OHL Alba Iulia - Galceag and of the 220 kV OHL Alba Iulia –Sugag;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, Stage I- Extending the 400 kV substation Portile de Fier;
- ETG connection of the 136 MW WPP Platonesti, Ialomita County, by building a 110 kV bay in the 400/110 kV substation Gura Ialomitei;
- Replacing the 220 V dc battery of accumulators no. 2 in substation Iernut;



Significant events

EVENTS IN Q1 2015

During the first quarter of 2015 a series of important events took place in the Company such as:

- **Moody's Investors Service credit rating**

On 02 February the credit rating agency Moody's Investors Service published their updated credit opinion assessing the current and future capability of Transelectrica to meet its obligations to creditors. Such credit opinion was issued one year after the last update (05 February 2014). The current credit opinion does not change the credit rating of Transelectrica. Both the rating and the rating outlook are unchanged since the last review.

- **Decision of the Appeal Court Bucharest in the litigation with Subsidiary ENERGY RESEARCH AND MODERNISING INSTITUTE - ICEMENERG SA**

On 12 February the Appeal Court Bucharest pronounced its ruling in file 15483/ 3/ 2014 with the Subsidiary Energy Research and Modernising Institute ICEMENERG SA Bucharest, where the Company is claimant, namely Ruling 173/ 2015 rejecting the appeal of the CNTEE Transelectrica as groundless, the decision being final.

- **Transfer of Transelectrica shares to the Ministry of Economy, Trade and Tourism**

On 02 March the provisions of the Governmental Emergency ordinance 86/2014 regarding the transfer of the Company-issued shares from the Romanian State's account represented by the Government through the General Secretariat of the Government into the account of the Romanian State, by means of the Ministry of Economy, Trade and Tourism.

- **Change in the Directorate and the Supervisory Board membership**

- **Directorate**

On 17 February, the mandate contract of Mr Ciprian Gheorghe DIACONU ended by the parties' agreement.

On 18 February, Mr Gheorghe Cristian VISAN's mandate contract ended by the parties' agreement.

- **Supervisory Board**

On February the Supervisory Board acknowledged the resignation of Andrei-Mihai POGONARU from his capacity of Supervisory Board member of CNTEE Transelectrica SA.

On 27 March Mr Costin MIHALACHE was appointed provisional member in the Supervisory Board.

- **Shareholders' general assemblies**

On 23 March the Shareholders' General Extraordinary Assembly (AGEA) and the Shareholders' General Ordinary Assembly (AGOA) took place. The main aspects included in the decision of the AGOA are:

- Approving the investment plan of the financial year 2015 and the investment expenses estimated for 2016 and 2017.
- Approving the proposed 2015 Revenue and Expense Budget of the CNTEE Transelectrica SA, as well as the estimations for 2016 and 2017.
- Setting the general limits of the fixed indemnification granted to the Directorate and Supervisory Board members of the National Power Grid Company Transelectrica SA.

- Setting the general limits of the variable component in the remunerations of the Directorate and Supervisory Board members in the National Power Grid Company Transelectrica SA.

The main aspects included in the AGEA decision are:

- Approving the amendment in the Articles of Association of the National Power Grid Company Transelectrica SA.

EVENTS AFTER THE Q1 2015

After the first quarter of 2015 the following significant events for the Company took place:

- **Court proceedings against recording the share capital increase of Subsidiary SC Smart SA in the Commercial Register**

On 17 April the National Power Grid Company Transelectrica SA instituted legal proceedings to cancel Resolution 154954/30.12.2014 of the Designated Person pronounced in file 449314/23.12.2014 based on which the Office of the Commercial Register from Bucharest Tribunal registered the share capital increase of Subsidiary Smart SA.

- **Approving the 2015 Revenue and expense budget for the CNTEE Transelectrica SA**

The Official Gazette no. 283/27.04.2015 published Governmental Decision 266/ 22.04.2015 approving the 2015 Revenue and expense budget of the National Power Grid Company TRANSELECTRICA SA, now under the authority of the Ministry of Economy, Trade and Tourism.

- **Change in the Directorate**

Starting May 12, 2015, Mr. Ion SMEEIANU was appointed by the Supervisory Board, as member of the Executive Board.

- **Shareholders' general assemblies**

On 29 April the Shareholders' General Extraordinary Assembly (AGEA) and the Shareholders' General Ordinary Assembly (AGOA) took place.

The main aspects included in the AGOA decision are:

- Approving the gross dividend per share for 2014 amounting to 2.8033 Lei gross / share owed to shareholders recorded in the Shareholders' register of TEL on 08 June 2015, ex-dividend date 05 June 2015 and payment beginning on 29 June 2015;
- Approving the annual standalone and consolidated financial statements for the financial year 2014 of the National Power Grid Company Transelectrica SA (TEL), as well as the 2014 annual report on the economic financial activities of the TEL, according to the provisions from the legislation on the capital market.



Other issues

SHAREHOLDERS STRUCTURE

On 31.03.2015, the shareholders' structure was as follows:

Name of shareholder	
Romanian State through the Ministry of Economy, Trade and Tourism	43,020,309
Legal persons	20,446,697
SIF Oltenia	4,385,055
Natural persons	5,451,081
Total	73,303,142

DIRECTORATE MEMBERSHIP

On 31.03.2015 the Directorate membership was as follows:

Ion - Toni TEAU	Chairman
Octavian LOHAN	Member
Constantin Vaduva	Member

DISPUTES

The most important disputes which the Company is involved in are provided below:

▪ ANAF

The Company is in litigation with ANAF³, which issued a fiscal inspection report on 20 September 2011 on VAT return for the period September 2005 – November 2006 for 123 unused invoices identified as missing, these being documents of special regime for which it estimated collected VAT of 16,303,174 Lei plus penalties- 27,195,557 Lei.

The total value of such obligations amounts to 43,498,731 Lei, and it was retained from the VAT the Company paid in November 2011. Later on the Company noted that the amounts transferred as current VAT were considered as the payment of the sums from the fore-mentioned fiscal report.

Thus the Company had to pay additional penalties of 944,423 Lei for the VAT that should have been

paid in November 2011, in order to avoid accumulating debts to the State budget. In total, the Company paid 44,442,936 Lei in 2011.

The Company filed complaint to ANAF against the taxation decision and requested suspending the enforcement of the decision until the complaint submitted to ANAF has been settled by administrative means. The law court rejected the request to suspend the enforcement of the fiscal report.

At the public hearing on 30.04.2014 the Appeal Court Bucharest rejected the claimant's request as groundless, with right to appeal; however as of the date of this report no motives have been received for the ruling of the Appeal Court.

³http://portal.just.ro/2/SitePages/Dosar.aspx?id_dosar=20000000293436&id_inst=2

▪ ANRE

CNTEE Transelectrica SA filed complaint against Order 51/26.06.2014 of ANRE⁴ president registered with ANRE under no. 47714/04.08.2014 and another complaint with the Appeal Court Bucharest requesting either amending the fore-mentioned order or issuing a new order to recalculate the RRR at 9.87% (recalculated with (β) coefficient of 1.0359, according to Transelectrica's specialists) or, in case such complaint is denied, it requested using the same 8.52% percentage that ANRE set in 2013 and in Q1 2014.

On 26.06.2014 Order 51 of ANRE was issued and published in the Official Gazette 474/27.06.2014, which approved the average tariff for transmission services, the tariff for system services and the zone tariffs of transmission services charged by the National Power Grid Company Transelectrica SA and cancelled annex 1 to Order 96/2013 of ANRE approving the average tariff for transmission services, the tariff for system services the zone tariffs of transmission services and the tariffs of reactive electricity charged by economic operators in the electricity sector.

The values used in the calculation of the regulated rate of return (RRR⁵) by ANRE according to the Methodology establishing the tariffs for electricity transmission services approved by Order 53/2013 of ANRE ("Methodology"), determined the RRR at 7.7%.

The CNTEE Transelectrica SA considers that by applying the provisions of article 51 in the Methodology by setting the Beta (β) parameter at 0.436, financial prejudice will be brought to the company and the profitability of electricity transmission will decrease by an estimated 138.4 mill. Lei⁷, with significant impact over the company's financial interest and might lead to the Company's financial instability in the third

⁴http://portal.just.ro/2/SitePages/Dosar.aspx?id_dosar=200000000318208&id_inst=2

⁵ RRR- the Regulated Rate of Return can be found in specific literature under the acronym WACC – Weighted Average Cost of Capital –; the formula of the two indicators is similar: $RRR = WACC = CCP + Kp/(1 - T) + CCI \times Ki$

⁶ Value that determined the RRR reduction to 7.7 %

⁷ Value calculated in comparison with RRR of 8.52%

regulatory period (01.07.2014 - 30.06.2019), thus prejudicing the company's shareholders as well as their interests.

At a hearing on 24 April 2015, the court rejected the request of the Company on the disposition of proof of technical and financial expertise and electroenergetics expertise. The next hearing was set on 2 June 2015.

▪ SC CONAID COMPANY SRL

The Company is involved as defendant in litigation under administrative disputes instituted by Conaid Company SRL⁸ as claimant, which company is also under insolvency proceedings. File 5302/ 2/ 2013, on the docket of the Appeal Court Bucharest pertains first on the complaint of Conaid Company SRL about Transelectrica's unjustified refusal to conclude addendum to the ETG connection contract, which contract actually ended because the claimant failed to meet the suspensive terms. Another claim in the case, also rejected by the first instance, is ascertaining the unjustified refusal of Transelectrica (after expiry of the first contract) to conclude a new ETG connection contract with the claimant company within the validity period of connection permits.

On the 20.05.2014 hearing date the Appeal Court Bucharest decided separating the two issues and instituted a new claim file 24.06.2014, then the court suspended settling the separated case.

On the 11.06.2014 hearing date the Appeal Court Bucharest rejected the case and the claimant's request for additional intervention as groundless, with appeal within 15 days from judgment notification.

On 01.10.2014 appeal was filed and the case got to the High Court of Cassation and Justice. To date no new hearing has been set and the file is under screening by the screening team dealing with the file.

⁸http://portal.just.ro/2/SitePages/Dosar.aspx?id_dosar=200000000306867&id_inst=2

▪ COURT OF AUDIT

In 2011 litigation was instituted in the administrative dispute court because the Court of Audit⁹ contested issuing a decision and a conclusion. This latter Court set some measures to be implemented by the Company in order to repair some deficiencies found on the occasion of audits in the Company.

The law court maintained the obligation instituted on behalf of Transelectrica to apply the measures proposed by the Court of Audit. The ruling of the administrative disputes court was appealed against in the High Court of Cassation and Justice.

After a control performed in 2013 the Court of Audit requested the Company to take some measures since it found some deficiencies upon such control. The decision and the conclusion issued by the Court of Audit were contested in the Appeal Court Bucharest.

On 11 March 2015 the Appeal Court Bucharest deferred the case in order to enable the technical and accounting expertise; the following hearing is set on 24 June 2015.

▪ ICEMENERG

In accordance with GD 925/2010 and the related norms (GD 185/2013) the National Office of the Commercial Register, Office of the Register for Commerce ("ORC") from Bucharest Tribunal admitted under Resolution 41515/07.04.2014 to cancel the Energy Research and Modernising Institute ICEMENERG SA¹⁰, and by Resolution 41923/07.04.2014 admitted the registration demand, authorised the establishment and ordered registering the National Energy Research-Development Institute ICEMENERG Bucharest (J40/4323/2014).

Taking into account that the Company's property interests have been seriously impaired, Transelectrica has expressed appeal in order to

⁹http://portal.just.ro/2/SitePages/Dosar.aspx?id_dosar=200000000313663&id_inst=2

¹⁰http://portal.just.ro/2/SitePages/Dosar.aspx?id_dosar=300000000584063&id_inst=2

protect the interests of its shareholders. Without taking into account the capacity of Transelectrica of single shareholder of its subsidiary, which would have undoubtedly requested applying Law 31/1990, the law court rejected the Company's complaint. The motivation of the court mainly relied on GD 925/2010 that has not been repealed to date therefore the ORC was right in ordering cancelling ICEMENERG and permitting the establishment of ICEMENERG Institute, stating that the stages provided in article 1 par 7 and in article 4 par 1 from GD 925/2010 "appear as subsequent not anterior to cancelling Subsidiary ICEMENERG and establishing ICEMENERG Institute", and that it has not retained the violated rights of Transelectrica as single shareholder since it ascertained the subsidiary's sole shareholder is the Romanian state.

The Company appealed the court ruling of 14.07.2014, hearing date being 05.02.2015. The Appeal Court Bucharest provided on 12.02.2015 the settlement proposed in file 15483/3/2014, namely Ruling 173/2015 rejected the appeal of CNTEE Transelectrica as groundless and the ruling is final.

Against Decision no. 173/2015, issued by the Court of Appeal, Transelectrica SA filed an appeal for annulment, which is the subject of File no. 1088/2/2015, before the Court of Appeal - Civil Division VI, the hearing is set for 13/05/2015.

▪ OPCOM

On 24.11.2014 the Operator of the Electricity and Natural Gas Markets OPCOM SA¹¹ sued the Company to compel it paying 582,086.31 Euro (2,585,161.72 Lei at BNR exchange rate of 24.11.2014), representing the amount paid as penalty out of the total charge of 1,031,000 Euro.

Before that the Shareholders' General Assembly of Subsidiary OPCOM SA had decided on 10.06.2014 to pay the entire 1,031,000 Euro penalty applied by the Directorate General Competition of the European Commission for breaching article 102 of the European Union

¹¹http://portal.just.ro/3/SitePages/Dosar.aspx?id_dosar=300000000614840&id_inst=3

Treaty according to the Decision taken in the antitrust case AT 39984.

OPCOM SA has also asked the court to compel the Company to pay 84,867.67 Lei as interest related to the period 11.06.2014 – 24.11.2014.

The action of OPCOM SA is included in file 40814/3/2014, on the docket of Bucharest Tribunal, Section VI Civil cases, object- claims, subject matter- litigation with professionals, and the hearing date was set on 29.06.2015. The Company filed defence to the summons in this case claiming exceptions and the illegality of the action.

▪ SMART

The National Power Grid Company Transelectrica SA instituted legal proceedings in order to cancel Resolution 154954/30.12.2014 of the Designated Person, pronounced in File 449314/ 23.12.2014, based on which the Office of the Commercial Register from Bucharest Tribunal registered the share capital increase of subsidiary Smart SA¹² by in-kind contribution and amended accordingly the articles of association as per Decision 12375/22.12.2014 of the Chairman of the subsidiary's Board of Administration and Decision 19/22.12.2014 of the Board of Administration.

The Company has also asked the competent court to repeal the two fore-mentioned decisions and suspend the enforcement of documents whose cancellation is requested until the settlement of the action.

The resolution that cancellation is requested for has not been published until the date of this report in the Official Gazette part IV, the Company being in the legal term for complaint filing. The share capital increase took into account applying the provisions of the privatisation legislation¹³, namely

¹²http://portal.just.ro/3/SitePages/Dosar.aspx?id_dosar=300000000624908&id_inst=3

¹³ Governmental Emergency Ordinance 88/1997 regarding *privatisation of trading companies*, as subsequently amended, Law 137/2002 on certain measures to expedite privatisation, GD 577 of 13 June 2002 approving the Methodological norms for the application of Governmental Emergency Ordinance 88/1997 regarding *privatisation of trading companies*, as

the obligation to increase the share capital with the value of lands from the inventories of Smart SA, which ownership certificates have been obtained for, and to issue shares for the Romanian State.

The first hearing date has not been set until the date of this report.

subsequently amended and of Law 137/2002 regarding certain norms to expedite privatisation.



Annexes

ANNEX 1: Separate statement of financial position on 31 March 2015

[Lei]	31.03.2015	31.12.2014
Assets		
Non-current assets		
Property, plant and equipment	3,328,902,053	3,387,759,611
Intangible assets	38,080,000	39,502,652
Financial assets	57,027,900	57,027,900
Total non-current assets	3,424,009,953	3,484,290,163
Current assets		
Inventories	35,730,923	35,680,518
Trade and receivables	842,865,455	1,056,178,011
Cash and cash equivalents	839,538,629	865,237,573
Total current assets	1,718,135,007	1,957,096,102
Total assets	5,142,144,960	5,441,386,265
Equity and liabilities		
Equity		
Share capital, of which:	733,031,420	733,031,420
<i>Share capital subscribed</i>	733,031,420	733,031,420
Share premium	49,842,552	49,842,552
Legal reserves	78,424,484	78,424,484
Revaluation reserves	602,443,422	615,407,592
Other reserves	24,876,704	23,660,704
Retained earnings	1,452,111,763	1,312,739,568
Total equity	2,940,730,345	2,813,106,320
Non-current liabilities		
Long term deferred revenue	546,843,458	552,768,103
Borrowings	715,120,838	792,043,629
Deferred tax liability	26,993,733	28,209,782
Employee benefits obligations	29,126,106	29,126,106
Total non-current liabilities	1,318,084,135	1,402,147,620
Current liabilities		
Trade and other liabilities	590,038,762	945,656,726
Other tax and social security liabilities	8,828,760	7,577,887
Borrowings	202,022,462	200,678,234
Provisions	24,434,384	24,784,498
Short term deferred revenue	33,727,601	33,069,502
Payable profit tax	24,278,511	14,365,478
Total current liabilities	883,330,480	1,226,132,325
Total liabilities	2,201,414,615	2,628,279,945
Total equity and liabilities	5,142,144,960	5,441,386,265

ANNEX 2: Separate profit and loss account for the period ended 31 March 2015

[Lei]	01.01 – 31.03.2015	01.01 – 31.03.2014
Revenues		
Revenues from transmission	360,642,643	326,530,155
Revenues from system services	196,966,049	204,117,944
Revenues from the balancing market	212,081,618	154,190,333
Other revenues	9,432,603	14,032,263
Total operational revenues	779,122,913	698,870,695
Operational expenses		
System operation expenses	(65,145,353)	(54,733,599)
Balancing market expenses	(212,081,618)	(154,190,333)
Technological system service expenses	(195,302,022)	(162,015,822)
Amortisement	(80,118,507)	(82,072,496)
Salaries and other remunerations	(40,240,361)	(39,510,552)
Repairs and maintenance	(14,244,325)	(16,729,176)
Materials and consumables	(2,090,341)	(1,962,463)
Other operational expenses	(21,031,673)	(22,817,223)
Total operational expenses	(630,254,200)	(534,031,664)
Profit from operations	148,868,713	164,839,031
Financial revenues	14,673,112	13,972,777
Financial expenses	(13,514,114)	(16,857,070)
Net financial result	1,158,998	(2.884,293)
Profit before tax	150,027,711	161,954,738
Income tax	(23,619,686)	(25,459,397)
Profit of the year	126,408,025	136,495,341

ANNEX 3: Separate statement of cash flows on 31 March 2015

[Lei]	The 3 months' period ended 31 March 2015	The 3 months' period ended 31 March 2014
Cash flows from operations		
Profit of the period	126,408,025	136,495,342
Allowances for:		
Income tax expense	23,619,687	25,459,397
Amortisement expense	80,118,507	82,072,496
Provisions for the impairment of trade and other receivables	4,909,173	4,719,856
Reversal of provisions for the impairment of trade and other receivables	(5,464,350)	(3,192,944)
Net loss from disposal of property	508,108	379,636
Reversal of allowances for property	53,835	-
Interest expense, interest revenue and unrealised exchange rate gains	(927,545)	9,718,558
Cash flows before changing the current capital	229,225,440	255,652,341
Changes in:		
Trade and receivables	212,605,625	18,025,895
Inventories	(50,405)	205,720
Trade and other liabilities	(349,805,108)	(217,007,782)
Other tax and social security liabilities	1,250,873	1,450,796
Deferred revenues	(4,050,544)	17,434,210
Cash flows from operational activities	89,175,881	75,761,180
Interest paid	(7,191,021)	(8,702,446)
Payable income tax	(11,648,681)	(10,369,590)
Net cash from operational activities	70,336,179	56,689,144
Cash flows used in investments		
Procurement of property and of intangible assets	(29,744,383)	(57,260,395)
Interest collected	3,038,485	3,706,577
Net cash used in investments	(26,705,898)	(53,553,818)
Cash flows from financing activities		
Proceeds from short term borrowing	-	134,702,501
Repayment of long term borrowing	(69,236,373)	(63,085,728)
Dividends paid	(92,851)	(45,974)
Net cash used in financing activities	(69,329,224)	71,570,799
Net increase/(decrease) of cash and cash equivalents	(25,698,943)	74,706,125
Cash and cash equivalents on 1 January (see Note 6)	865,237,573	600,698,763
Cash and cash equivalents at the end of the period (see Note 6)	839,538,630	675,404,888

ANNEX 4: Execution of the Revenue and Expense Budget (REB) on 31 March 2015

No.	INDICATORS	REB in Q1 2015	Achieved in Q1 2015	Differences (+/-)	Degree of achieve (%)
0	1 [thousand Lei]	2	3	4=3-2	9=3/2 * 100
I.	TOTAL REVENUES	726,131	793,796	67,665	109.3%
	1 Total operational revenues	716,681	779,123	62,442	108.7%
	2 Financial revenues	9,450	14,673	5,223	155.3%
II	TOTAL EXPENSES	661,345	643,768	-17,577	97.3%
	1 Operational expenses	648,076	630,254	-17,822	97.3%
	A Goods and services	505,344	503,848	-1,496	99.7%
	B Tax and other payments	8,228	4,875	-3,353	59.2%
	C Personnel expenses	39,830	40,148	318	100.8%
	D Other operational expenses	94,674	81,383	-13,291	86.0%
	2 Financial expenses	13,269	13,514	245	101.8%
III	GROSS RESULT (profit/loss)	64,786	150,028	85,242	231.6%
IV	PROFIT TAX	225	26,052	25,827	11,578.7%
V	ACCOUNTING PROFIT REMAINING AFTER THE PROFIT TAX	64,561	123,976	59,415	192.0%
	Outstanding payments	225	212	-13	94.0%
	Outstanding liabilities	191,273	202,650	11,377	105.9%

ANNEX 5: Economic-financial indicators related to the reporting period

Indicators	Calculation formula	31.03.2015	31.03.2014
Indicator of current liquidity (x)	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.95	1.93
Indicators of gearing ratio (x):			
(1) Indicator of leverage	$\frac{\text{Borrowed capital}}{\text{Equity}}$	0.24	0.36
(2) Indicator of leverage	$\frac{\text{Borrowed capital}}{\text{Committed capital}}$	0.20	0.26
Clients turnover (days)	$\frac{\text{Average clients balance}^*}{\text{Turnover}} \times 90$	71	99
Non-current assets turnover (x)	$\frac{\text{Turnover}}{\text{Non-current assets}}$	0.22	0.19

* The clients contributing to turnover were taken into consideration when calculating the average balance (energy, balancing, other clients, and clients' bill to execute. The values of doubtful clients, the cogeneration scheme and overcompensation have not been included in the average balance)