



NPG TRANSELECTRICA SA

QUARTERLY REPORT
January – September
2016

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

**As per the provisions of article 227 from Law 297 / 2004 on the capital market and Regulation 1/2006
of CNVM issued by the National Securities Commission, now the Authority for Financial
Supervision (ASF)**

for the period ending 30 September 2016

| | |
|--|---|
| Date of the report: | 15 November 2016 |
| Name of trading company: | CNTEE TRANSELECTRICA SA, company managed under two-tier system |
| Headquarters | Blvd. Gen. Gheorghe Magheru no. 33, Bucharest 1, postal code 010325 |
| Working point: | Str. Olteni no. 2 - 4, Bucharest 3, postal code 030786 |
| Phone / fax numbers: | 0040 021 303 5611/ 021 303 5610 |
| Single code with ORC: | 13328043 |
| Sequence number in the RC: | J40/ 8060/ 2000 |
| Date of Company establishment: | 31.07.2000/ GEO 627 |
| Share capital: | 733,031,420 Lei, subscribed and paid |
| Regulated market where the issued securities are transacted: | Bucharest Stock Exchange (BVB), Premium class |
| Main characteristic features of the issued securities: | 73.303.142 dematerialised, nominative, ordinary, indivisible shares of 10 Lei / share nominal value each freely transactable since 29.08.2006 with symbol TEL 20.000 nominative dematerialised unsecured bonds of 10.000 Lei / bond nominal value each, transacted on the BVB, sector Credit Securities, 3rd class; corporative bonds under TEL 18 symbol in its class; maturity date 19.12.2018 |
| Market value: | 2.147.782.060 Lei (29,3 Lei/share on 30.09.2016) |
| Accounting standard applied: | International financial reporting standards |
| Audit: | The financial statements elaborated on 30.09.2016 have not been audited |

STATEMENT OF RESPONSIBLE PERSONS

To the best of our knowledge the quarterly financial data for the 9 months' period ended on 30 September 2016 have been prepared in accordance with the applicable accounting standards (International Financial Reporting Standards as approved by the European Union) and they provide accurate truthful image of the assets, liabilities, financial position, and profit & loss account of CNTEE Transelectrica SA.

This report includes correct full information about the economic-financial situation and activities of CNTEE Transelectrica SA.

Bucharest, 14 November 2016

Directorate,

**Ion-Toni
TEAU**

**Directorate
Chairman**

**Constantin
VADUVA**

Directorate Member

**Octavian
LOHAN**

Directorate Member

**Luca - Nicolae
IACOBICI**

Directorate Member



Key figures 9M 2016 vs 9M 2015

KEY FIGURES – 9 months 2016

| FINANCIAL | | |
|----------------|----------------|-------------------------------|
| Lei 1.898 m | ▼ 14,3% y/y | Revenues |
| Lei 505 m | ▼ 15,5% y/y | EBITDA |
| Lei 213 m | ▼ 29,9% y/y | Net profit |
| 39,16 TWh | ▲ 0,7% y/y | Billed energy volume** |

| OPERATIONAL | | |
|--------------|------------------|------------------------------|
| 2,32* % | ▼ 0,09 pp y/y | CPT |
| 31,88 TWh | ▼ 0,1% y/y | Transmitted energy*** |

CPT Own Technological Consumption (losses)

* Share of technological consumption (losses) in the electricity input in the electricity transmission grid (transmitted electric power)

** Billed quantity is defined by the amount of electricity taken out of the electric networks of public interest (the transmission and the distribution networks) except for electricity exports

*** The transmitted quantity is defined by the amount of energy carried in physical terms in the transmission grid

**** The amount does not include the advance not used, related to the new line section Porțile de Fier – (Anina) – Reșița

| INVESTMENTS | | |
|----------------|----------------|---|
| Lei 117.4 m | ▲ 15.7% y/y | Procurement of property, plant, equipment and of intangible assets**** |
| Lei 50.16 m | ▼ 24.7% y/y | Non-current assets recorded in accounting books (commissioning) |



Financial data

The synthesis of quarterly financial results on 30 September 2016 is provided in the tables below. Financial results have not been audited, and their extended variant for the same period is provided in the Annexes to this Report.

| Stand-alone profit and loss account | | | | | |
|--|------------|------------|------------|------------|------------|
| Lei Million | 9M 2016 | 9M 2015 | Q2 2016 | Q3 2016 | Q3 2015 |
| Billed volume of energie (TWh) | 39.16 | 38.90 | 12.45 | 12.69 | 12.63 |
| PROFIT ALLOWED ACTIVITIES | | | | | |
| Operational revenues | 933 | 1,064 | 301 | 285 | 321 |
| Operational expenses | 462 | 452 | 169 | 155 | 152 |
| EBITDA | 472 | 611 | 131 | 130 | 169 |
| Depreciation & amortisation | 244 | 239 | 81 | 81 | 79 |
| EBIT | 228 | 372 | 50 | 49 | 89 |
| ZERO PROFIT ACTIVITIES | | | | | |
| Operational revenues | 965 | 1,152 | 294 | 264 | 468 |
| Operational expenses | 931 | 1,165 | 280 | 232 | 450 |
| EBIT | 34 | -13 | 14 | 32 | 19 |
| ALL ACTIVITIES (PROFIT ALLOWED and ZERO-PROFIT) | | | | | |
| Operational revenues | 1,898 | 2,216 | 594 | 548 | 789 |
| Operational expenses | 1,393 | 1,618 | 449 | 386 | 602 |
| EBITDA | 505 | 598 | 145 | 162 | 187 |
| Depreciation & amortisation | 244 | 239 | 81 | 81 | 79 |
| EBIT | 261 | 358 | 64 | 81 | 108 |
| Financial result | -4 | 1 | -8 | 2 | 2 |
| EBT (gross profit) | 258 | 359 | 56 | 83 | 111 |
| Income tax | 44 | 54 | 14 | 12 | 16 |
| Net income | 213 | 305 | 43 | 72 | 94 |

Stand-alone statement of the financial position

| [Lei m] | 30.Sept.16 | 31.Dec.15 |
|---|--------------|--------------|
| Non-current assets | 3,283 | 3,432 |
| Property, plant and equipment | 3,178 | 3,341 |
| Intangible assets | 12 | 35 |
| Financial assets | 79 | 56 |
| Long term liabilities | 15 | |
| Current assets | 1,608 | 1,802 |
| Inventories | 33 | 34 |
| Liabilities | 534 | 723 |
| Other financial assets (financial deposits > 90 days) | 293 | 70 |
| Cash and cash equivalents | 748 | 974 |
| Assets | 4,891 | 5,234 |
| Shareholder's equity | 3,050 | 3,029 |
| Share capital subscribed | 733 | 733 |
| Share premium | 50 | 50 |
| Legal reserves | 99 | 99 |
| Revaluation reserves | 562 | 604 |
| Other reserves | 57 | 56 |
| Retained earnings | 1,548 | 1,488 |
| Non-current liabilities | 1,009 | 1,167 |
| Borrowings | 505 | 635 |
| Other liabilities | 505 | 532 |
| Current liabilities | 832 | 1,038 |
| Borrowings | 144 | 167 |
| Trade and other liabilities | 592 | 776 |
| Other liabilities | 96 | 95 |
| Liabilities | 1,841 | 2,205 |
| Shareholder's equity and liabilities | 4,891 | 5,234 |

Stand-alone statement of cash flows

| [Lei m] | 9 months' period ended 30 September 2016 | 9 months' period ended 30 September 2015 |
|---|---|---|
| Cash flows before changes in current capital | 507 | 594 |
| Cash flows generated from operations | 488 | 620 |
| Net cash generated from operations | 425 | 552 |
| Net cash used in investments | (303) | (122) |
| Net cash used in financing | (348) | (376) |
| Net (decrease)/increase of cash and cash equivalents | (227) | 54 |
| Cash and cash equivalents as of 1 January | 974 | 865 |
| Cash and cash equivalents at the end of the period | 748 | 919 |

OPERATIONAL RESULTS

Billed volume of energy

In this time period until 30 September 2016 the electricity amount billed for the services provided on the electricity market recorded minor 0.7% increase compared to the same time of 2015 (+0.26 TWh being the difference between the two time intervals).

Operational revenues

Revenues obtained in January - September 2016 decreased **14.3%** compared to the same period of last year (1,898 mill Lei from 2,216 mill Lei in 2015).

In functional terms the **profit allowed activities** registered 12.3% drop of revenues (933 mill Lei from 1,064 mill Lei in 2015), determined by reduced average tariffs for transmission services beginning with 01 July 2016, against the background of insignificant increase of the electricity consumption.

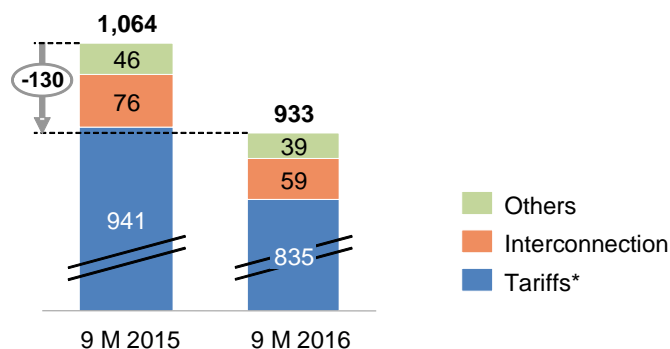
Revenues from the allocation of interconnection capacities recorded **22.1%** decrease compared to the 2015 achievement (59 mill Lei in 2016 from 76 mill Lei in 2015).

Beginning with 2016 the UIOSI principle has been implemented on the Hungarian and Bulgarian borders, according to which participants that do not use the capacity gained at annual and monthly bids are remunerated for such unused capacity by means of market mechanisms.

The market allocating interconnection capacities is fluctuant and prices depend on the participants' demands and needs to procure interconnection capacity on the electricity market.

Net revenues from the allocation of interconnection capacities are used according to article 22 par (4) from Order 53/2013 of ANRE and to articles 16 par (6) from Regulation (EC) 714/2009, as financing source for investments made in order to upgrade and develop the interconnection capacity with neighbouring systems.

Operational revenues of profit allowed activities
(mill Lei)



* includes revenues from transmission tariffs and from the tariffs of functional system services

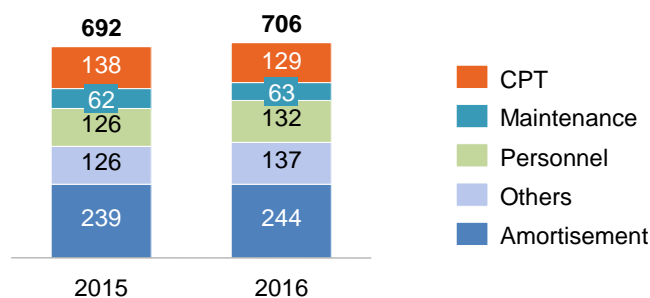
Revenues from **zero-profit activities** also decreased 16.3% (965 mill Lei from 1,152 mill Lei in 2015) mainly owing to the 26.8% drop of revenues from the balancing market, as imbalances were fewer in the 9 months interval of 2016 while revenues from the provided technological services recorded 2% marginal decrease compared to 2015.

Operational expenses

Total operational expenses (including amortisation) made in January – September 2016 decreased **11.8%** compared to the same period of last year (1,637 mill Lei from 1,857 mill Lei).

Within **profit allowed activities** expenses (without amortisation) recorded **2.0%** increase (462 mill Lei from 452 mill Lei in 2015).

Operational expenses of profit allowed activities
(mill Lei)

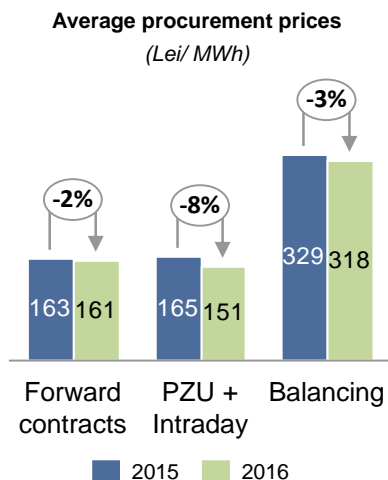


CPT: The total cost to procure electricity necessary to cover the technological consumption (losses) decreased 6.3% in January - September 2016 compared to the same period of 2015.

The necessary energy for CPT was lower in 2016 around 741 GWh in comparison with 769 GWh in 2015.

As regards procurement prices, in January-September 2016 the average unit cost of purchase was 2.9% lower

compared to the same period of 2015, namely 174.3 Lei/ MWh in 2016 compared to 179.5 Lei/ MWh.



Congestions: Congestions (network restrictions) mean the demands of electricity transmission beyond the network’s technical capacity limits, which require corrective activities from the transmission and system operator, and they occur whenever during operational scheduling or in real time the power flow between two system nodes or zones OHLds to non-compliance with the safe operational parameters of the power system.

In January – September 2016 the value of congestions increased with 2 mill Lei as compared to 2015 (1 mill Lei), as a result of extreme weather conditions in Dobrogea during January 2016.

Zero-profit activities registered approx. **20.1%** cost decrease (931 mill Lei from 1,165 mill Lei in 2015).

In January-September 2016 the expenses with technological system services decreased by 11.3% as compared to the same period of 2015, mainly due to the followings:

- Diminished share of procurements for technological system services under regulated regime within the total procurements of technological system services;
- Procurement prices for technological system services were smaller on the competitive market in comparison with the regulated procurement prices;
- Due to the higher competitiveness on the technological system services, the average procurement prices for automatic frequency restoration reserve and slow tertiary control were smaller.

CNTEE Transelectrica SA is re-invoicing the amount of technological system services procured from producers

to the electricity suppliers licensed by ANRE that are the end users of such services.

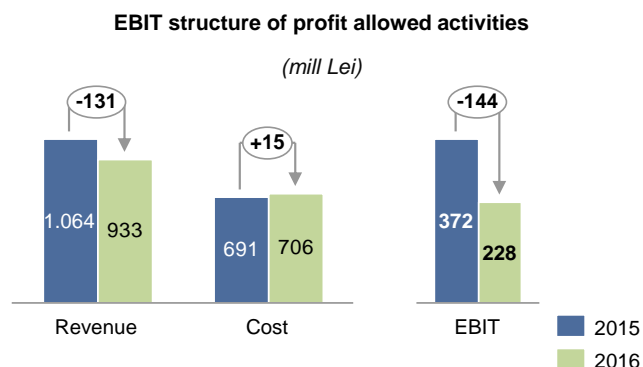
Operational profit

EBITDA decreased with **15.5%** as compared to the same period of previous year (505 mill Lei in 2016 from 598 mill Lei in 2015), such development being mainly caused by the reduction of average tariffs approved by ANRE for transmission services.

Profit allowed activities recorded result of 228 mill Lei that decreased from 372 mill Lei, based on reduced transmission tariffs.

EBIT generated by the **zero-profit activities** recorded positive result of 34 mill Lei.

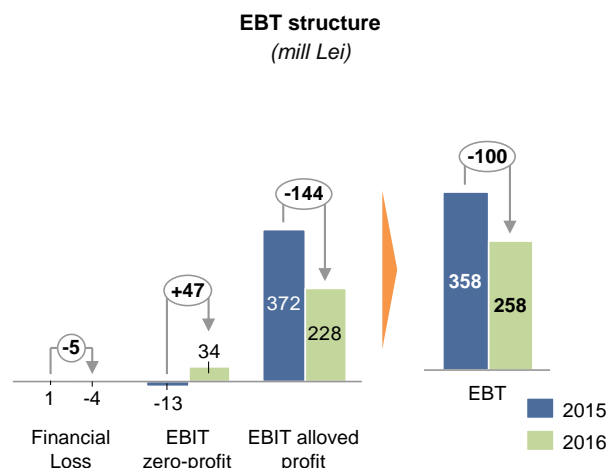
EBIT calculated for all activities recorded a decrease of about **27.1%** (261 mill Lei from 358 mill Lei in 2015).



Gross profit (EBT)

The gross profit decreased **28.2%**, from 358 mill Lei in 2015, to 258 mill Lei in 2016.

The difference between the profit registered in the 9 months of 2016 and that of 2015, broken down by constitutive elements of profit is provided in the graph below.

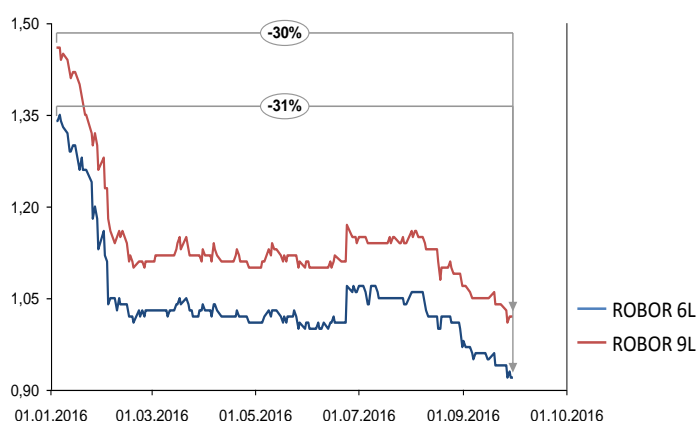


Financial result

The net financial result registered in January-September 2016 was negative in sum of 3.6 mill Lei, mainly due to the decrease of the dividends received from OPCOM and TELETRANS subsidiaries.

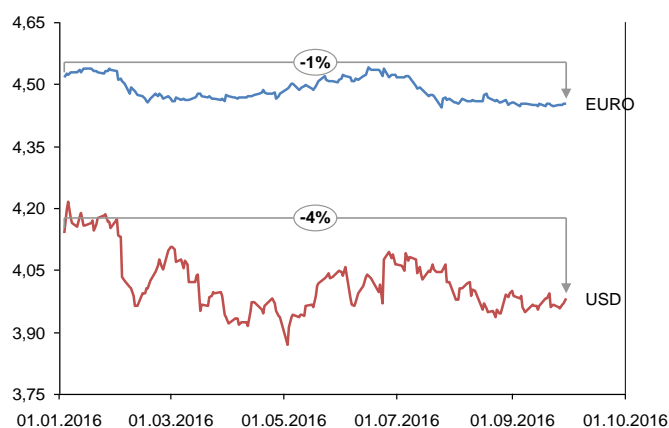
The impact of interest rates in the financial result was of approximate 14 mill Lei against the background of 4,4 mill Lei revenues from interest rates and of paid interest in sum of 18,4 mill Lei according to existing loan agreements.

ROBOR evolution (6M and 9M)



The positive development of the net foreign exchange rate differences was mainly determined by how the exchange rate of our national currency developed against the foreign currencies in which Transelectrica contracted bank loans in order to finance its investment programmes (mostly Euro denominated). Thus in the first 9 months the registered net gain was 7.4 mill Lei, with 0.6 mill Lei more as compared to the same period of 2015.

Evolution of the exchange rates



Net profit

Net profit registered approximately **30.0%** decrease in comparison with the figure recorded for the first 9 months of 2015 (213 mill Lei from 305 mill Lei).

STATEMENT OF FINANCIAL POSITION

Non-current assets

Non-current assets registered about 4.3% decrease at the end of September 2016 against 31 December 2015, mainly because the amortisement of current and non-current assets was registered.

Included in Non-current assets is an amount of 16.6 mill Lei, representing trade receivables associated to the bonus type support scheme, related to SC Electrocentrale Oradea SA, with payments schedules until 30.09.2018.

Current assets

Current assets registered about 3,2% decrease on 30 September 2016 (1.608 mill Lei) in comparison with the value recorded on 31 December 2015 (1.802 mill Lei), determined by reduced receivables with 190 mill Lei and a smaller cash and cash equivalents balance by 227 mill Lei.

On 30 September 2016 the Company registered receivables under the bonus type support scheme to promote high efficiency cogeneration of about 31% (31 December 2015 - 25%) in the total trade receivables.

The clients of the bonus type support scheme to promote high efficiency cogeneration registered higher receivables as at September 30th, 2016, mainly as a result of receivables recorded in accordance with ANRE decisions issued in April for the 2015 overcompensation activities.

From 01 January to 30 September 2016 the amounts associated to the bonus type support scheme were diminished as follows:

- The amount of 7.0 mill Lei representing the 2014 overcompensation, of which 0.2 mill Lei proceeds from bank transactions (Termo Calor) and 6.8 mill Lei proceeds from compensations made through the Institute of Management and Informatics (according to GD 685/1999) (Electrocentrale Oradea);
- The amount of 21.8 mill Lei representing the 2015 overcompensation, of which 12.4 mill Lei proceeds from bank transactions (CET Grivita, Veolia Prahova, Veolia Iasi and Thermoenergy) and 84.3 mill Lei proceeds from compensations made through the Institute of Management and Informatics (according to GD 685/1999) (Energy Complex Oltenia, Enet and Electrocentrale Bucharest);
- The amount of 2.7 mill Lei representing the 2015 undue bonus, of which 0.3 mill Lei proceeds from bank transactions (Electrocentrale Bucharest) and 2.4 mill Lei proceeds from compensations made

through the Institute of Management and Informatics (according to GD 685/1999) (CET Arad, Energy Cogeneration Group).

On September 30th, 2016 the Company registered receivable of 111.3 mill Lei, represented by the invoices issued under the bonus type support scheme to promote high efficiency cogeneration, out of which:

- 2011-2013 overcompensation in an amount of 76.7 mill Lei, namely from RAAN – 63.5 mill Lei and from CET Govora SA – 13.2 mill Lei;
- 2014 overcompensation amounting to 3 mill Lei, namely from Electrocentrale Oradea;
- Undue 2014 bonus amounting to 3.9 mill Lei, namely from RAAN – 2.0 mill Lei and from CET Govora – 1.9 mill Lei;
- Undue 2015 bonus amounting to 0.6 mill Lei, namely from CET Govora and Interagro;
- 2015 overcompensation amounting to 11.6 mill Lei, namely from Electrocentrale Oradea. At the end of September, Electrocentrale Oradea concluded a liability assignment contract representing the 2014 and 2015 overcompensation (29.3 mill Lei) with SC Termoficare Oradea SA, spreading it out over 24 months (31.10.2016 – 30.09.2018). Thus the sum of 14.6 mill Lei with maturity over one year was re-classified under non-current receivables;
- Cogeneration contribution of 15.5 mill Lei not collected from the suppliers of electricity consumers, namely PetProd – 4.4 mill Lei,

Romenergy Industry – 2.7 mill Lei, RAAN- 2.4 mill lei, Transenergo Com – 1.8 mill Lei, UGM Energy – 1.8 mill Lei and others.

In order to close the overcompensation receivables generated within the 2011-2013 period, the Company requested the producers to conclude mutual compensations. RAAN did not agree with this settlement method for mutual liabilities, for which reason the Company has applied and further applies the provisions of article 17 par 5 from Order 116/2013 of ANRE's president approving the Regulation to determine the contribution collection for high efficiency cogeneration and the payment of the bonus for electricity generated under high efficiency cogeneration: *"in case the producer has failed to pay the support scheme administrator all of its payment obligations resulting in accordance herewith, then the support scheme administrator shall pay the producer the difference between the value of the invoices issued by the producer and the producer's payment obligations in connection with the support scheme, with a cOHLr indication of the said amounts on the payment document"* and has withheld the payment of the amounts associated to the respective support scheme.

CNTEE Transelectrica SA concluded with CET Govora SA a compensation and payment scheduling agreement for the amounts representing liabilities from the 2011-2013 overcompensation and the undue 2014 bonus (Convention C 135/30.06.2015 and Addendum 1/04.08.2015). The Convention was concluded for 1 year (July 2015-August 2016) and provided the Company's right to calculate and collect penalties during payment scheduling

In accordance with the Convention the Company's receivable liabilities from CET Govora SA were compensated with its liabilities in sum of 40,5 mill Lei to CET Govora SA, represented by cogeneration bonus in May 2014 – October 2015 withheld by applying the provisions of article 17 par 5 from Order 116/2013 of ANRE's president and the Convention provisions.

Civil sentence 3185/27.11.2015 suspended Decision 738/28.03.2014 of ANRE that determined the value of the 2011 – 2013 overcompensation, and consequently CET Govora SA has no longer complied with its obligations under the Convention.

Beginning with 9 May 2016 the general insolvency procedure was instituted against CET Govora. The Company intended recovering the liabilities generated before the initiation of such insolvency procedure, consequently it has applied the specific procedures provided in Law 85/2014 of insolvency and requested the law court to admit its liabilities in accordance with legal provisions.

Taking into account the above, beginning with 9 May 2016 the Company ceased applying the provisions of article 17,5 from Order 116/2013 of ANRE's president approving the Regulation that determines the contribution collection for high efficiency cogeneration and the payment of the bonus for electricity generated under high efficiency cogeneration and pays monthly the cogeneration bonus to CET Govora.

Civil Ruling 2430/05.10.2016 of the High Court of Cassation and Justice admitted ANRE's appeal against the civil Ruling 3185/27.11.2015, has partly cancelled the repealed sentence and rejected the suspension demand expressed by CET Govora, the decision being final. Thus, from 05.10.2016, ANRE Decision 738/28.03.2014 is no longer suspended, producing full effects.

Liabilities

Non-current liabilities decreased 13.5% in January - September 2016, following repayment of principal instalments (from 635 mill Lei as of 31 December 2015

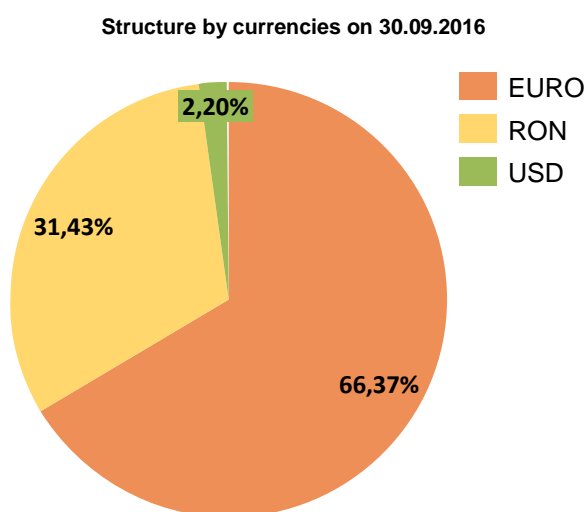
to 505 mill Lei as of 30 September 2016) from its contracted loans.

Current liabilities also recorded a 19.9% decrease as at September 30th, 2016. A significant share represents the reduced liabilities associated to the electricity market, determined by diminished procurement price for the electricity necessary to cover the CPT in parallel with the settlement of payment obligations on balance on the electricity market as of 31 December 2015, but also as a result of diminished liabilities associated to the support scheme, which was reduced from 175.4 mill Lei to 78.8 mill Lei.

Interest-bearing borrowings with maturity less than 12 months decreased 23.5 mill Lei compared to 31 December 2015.

Also Other taxes and duties position increased, mainly as a result of the increase in VAT payable (the amount at September 30th, 2016: 13.4 mill Lei).

The structure of interest-bearing liabilities (non-current and current) is provided below.

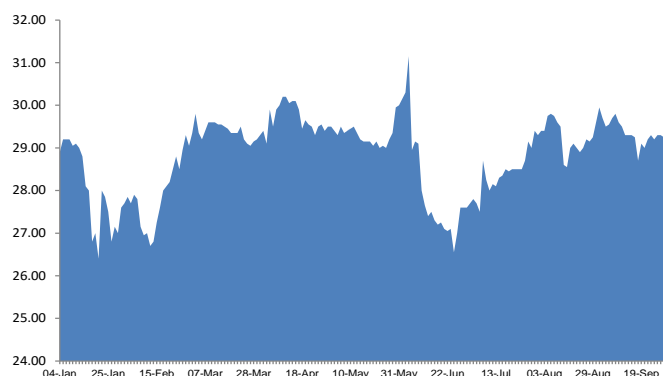


Equity

Equities registered slight 0,7% increase against the diminished reserves by 41 mill Lei but also increased retained earnings by 61 mill Lei.

SHARES EVOLUTION

(31-Dec-2015 to 30-Sept-2016)



2016 began with 29.15 Lei/share transaction price, stock exchange capitalisation being 2,137 mill Lei; at the end of this period (30 September 2016) the share price was 29.3 Lei. The minimum transaction price of 26.4 Lei/share was registered on 20.01.2016, while the maximum of 31.15 Lei/share was registered on 03.06.2016.

DIVIDENDS

In 2015 a gross dividend per share of 2.65 Lei was approved, which began being paid on 28 June 2016. The dividend was calculated observing the provisions of the legislation on profit distribution to companies with majority state capital based on 75% distribution rate, in line also with the dividend policy of CNTEE Transelectrica SA.

| | |
|-----------------------------|--------------|
| Total dividend distributed: | 194 mill Lei |
| Dividend per share: | 2,6500 Lei |
| Date of ex-dividend: | 6 June 2016 |
| Date of payment: | 28 June 2016 |



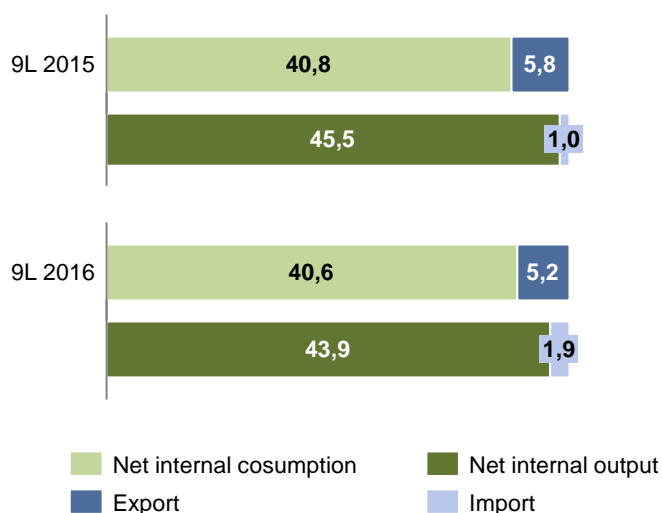
Operational data

ENERGY BALANCE IN THE SEN

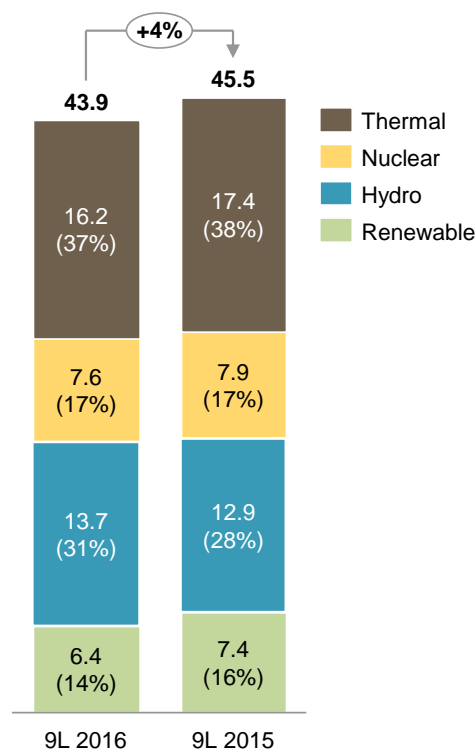
In the first 9 months of 2016 the net¹ internal consumption decreased 0,3% compared to the same period of last year when the net energy output decreased about 3,6% in comparison to the same time interval of 2015.

The cross-border exporting physical exchanges decreased with 10,0% as compared to the same period of 2015, while importing cross-border flows registered about 95,3% increase.

Energy balance of 9 M
(TWh)



Mix of net electricity output
(TWh)



GENERATION MIX

In January-September 2016 compared to the same period of 2015 the generation mix registered about 5.9% increase in the share of the hydro component, while the contribution of the thermal and renewable components decreased. Thus the thermal component represented 37% of the generation mix, while the nuclear and renewable sources outputs represented 17.3% (similarly to January-September 2015), and respectively 14.5%.

NATIONAL GENERATION FLEET

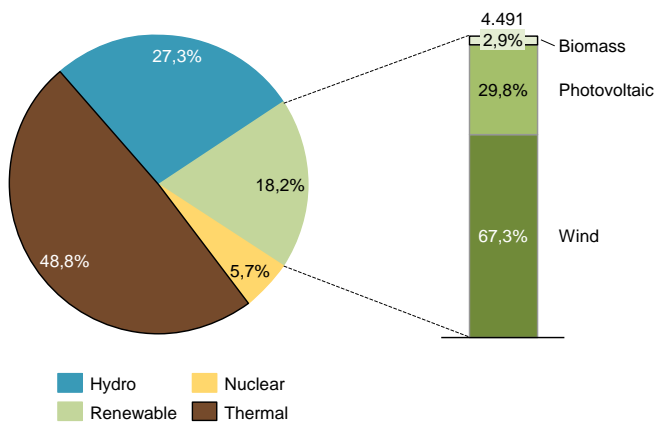
In the first nine months of 2016, the gross installed capacity of electric power plants recorded a 0.7% increase as compared to 2015.

The installed capacity on renewable sources increased with 2.8% (176 MW) from 4,369 MW installed on 30 September 2015 to 4,491 MW installed on 30 September 2016.

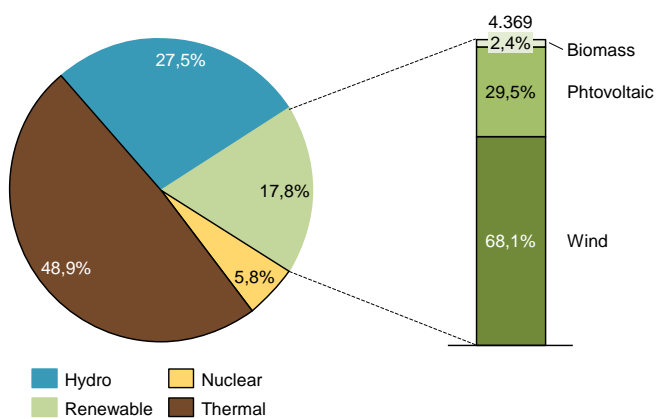
The dynamics of installed capacities in January-September 2016 and respectively in 2015 are provided as following:

¹ Values do not include the consumption of auxiliary services from electricity generating power plants; the net consumption value includes the losses from the transmission and distribution networks as well as the consumption of pumping storage hydro substations

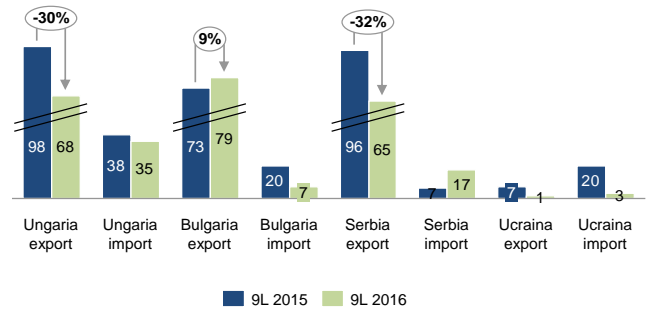
Installed capacity in 2016 (24.672 MW, gross value)



Installed capacity in 2015 (24.582 MW, gross value)

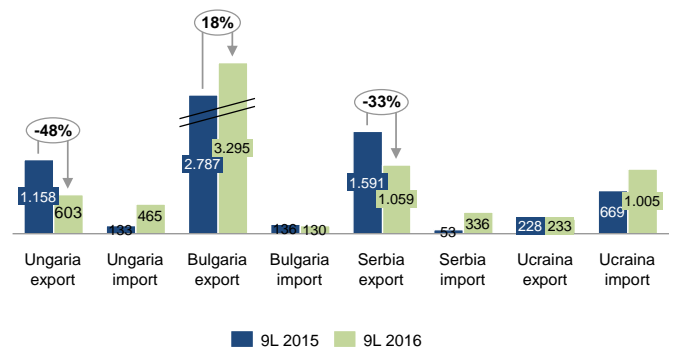


Utilisation degree of total allocated capacity (%)



Both import and export physical flows on each border are provided below.

Physical flows (GWh)



CROSS-BORDER FLOWS

Cross-border flows registered positive values in relation with Bulgaria, Serbia and Hungary and they were decreasing in relation with Ukraine.

Thus in comparison with 2015 exporting physical flows with Bulgaria (18%, +508GWh) and Ukraine (+2%, +5GWh) increased, while decreasing in relation with Serbia (-33%, -532GWh) and Hungary (-48%, -555GWh).

As far as import physical flows are concerned, they increased in relation with Serbia (+532%, +283 GWh), Hungary (+249%, +331 GWh) and Ukraine (+50%, +336 GWh). They diminished 4% in relation with Bulgaria.

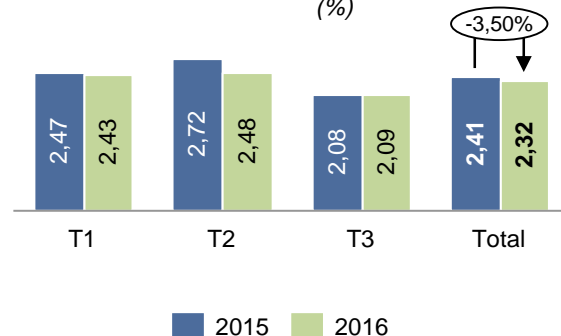
No import / export operations were registered with the Republic of Moldova in the first 9 months of 2016 and of 2015.

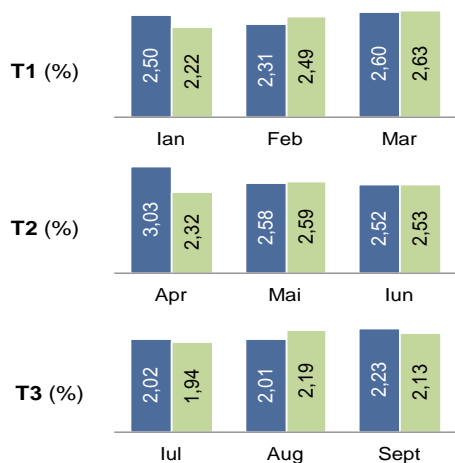
OWN TECHNOLOGICAL CONSUMPTION

In the first 9 months of 2016 the quantity necessary to cover the CPT in the RET (0.74 TWh) decreased about 3.6 % in comparison with the same period of 2015, being a combination of better meteorological conditions, import/ export physical flows and the output structure.

Losses slightly decreased from 2.41% to 2.32% as compared to the energy input into the network.

CPT
9L
(%)





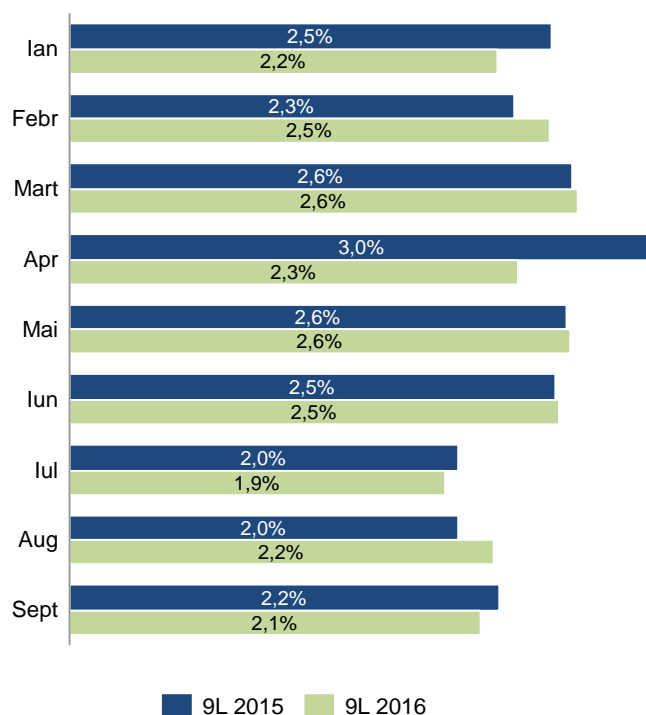
In **September** 2016 the absolute value of the CPT decreased about 9.02% compared to September 2015 because of smaller amounts of transmitted electricity and to better meteorological conditions, which determined lower corona losses. Input electricity dropped 4.7% in September 2016 compared to the same period of 2015. The loss percentage compared to the electricity input into the RET decreased from 2.23% in 2015 to 2.13% in 2016. Meteorological conditions were better and the registered amount of precipitation was lower than last year.

REDUCTION FACTORS OF CPT COST (Operational)

In **July 2016** the absolute value of the CPT decreased about 1.04% compared to July 2015 because of the better distribution of import/ export flows. The loss percentage compared to the electricity input into the RET decreased from 2.02% in 2015 to 1.94% in 2016. Although the net domestic consumption of electricity was 4% lower compared to July 2015 the input electricity increased 2.68% in July 2016 compared to the same period of 2015 as a consequence of the 50% higher export balance. Favourable import / export physical flows led to reduced electricity transmission to long distances from sources.

In **August 2016** the absolute value of the CPT increased about 6.27% compared to August 2015, especially because of disadvantageous distribution of import / export physical flows. The loss percentage compared to the electricity input into the RET increased from 2.01% in 2015 to 2.19% in 2016 as a result of smaller amounts of transmitted electricity. The input electricity decreased about 2.9% in August 2016 compared to August 2015. The electricity input into the grid decreased 2.46% in August 2016 compared to the same period of 2015. The meteorological conditions were worse and the registered amount of precipitation was higher than last year, with negative impact on corona losses.

Development of CPT 9 M 2016 vs 9 M 2015





Investments

NON-CURRENT ASSETS REGISTERED IN ACCOUNTING BOOKS

Non-current assets amounting to 50,17 mill Lei were registered in the accounting books for the first 9 months of 2016.

The greatest transfers from property, plant and equipment underway to property, plant and equipment are represented by commissioning of investment projects as follows:

- Higher safety of installations in the 400/220/110/10 kV substation Bucharest Sud; replacing the 10 kV equipment, Lot II – 18,6 mill Lei;
- Upgrading the control protection system of the 220/110 kV substation Vetis – 6,4 mill Lei;
- Replacing the 110/10 kV, 25 MVA transformers T3 and T4 with 110/(20)10 kV, 40 MVA ones in the 220 kV Fundeni – 3,7 mill Lei;
- Integrated security system in electric substations, etapa IV– the 400/110 kV substation Constanta Nord – 3,3 mill Lei;
- Integrated security system in the new 400 kV substation Stupina – 1,9 mill Lei;
- Upgrade of dc and ac auxiliary services in the 400/110 kV substation Draganesti Olt – 1,8 mill Lei;
- Replacing the central equipment of the SCADA system in the 400/220 kV substation Gutinas – 1,4 mill Lei;
- Replacing the conductors of the 220 kV OHL Craiova Nord - Isalnita, circuit 1 – 1,2 mill Lei;
- Replacing AT-s and transformers in electric substations, stage 2 – replacing the 16 MVA T2 in 220/110/20 kV substation Ungheni – 1,2 mill Lei;
- Upgrading the industrial building no. 2 of the TB Timisoara, Sp+P+1E – 1,2 mill Lei;
- Upgrading one 110 kV OHL bay Iron Gates - Gura Vaih in the 110 kV substation and two 6 kV bays – 1,1 mill Lei;

ASSET PROCUREMENT

Procurements of current and non-current assets² amount to 117,4 mill compared to the same period of 2015 when procurements amounted to 139,3 mill Lei.

² Includes the turnover of suppliers on balance as at September 30th, 2016

Investment projects under execution on 30 September 2016 are as follows:

- Refurbishing the 400/220/110/20 kV substation Bradu – 68,9 mill Lei;
- 400 kV OHL interconnecting Resita (Romania) - Panchevo (Serbia) – 59,3 mill Lei;
- Refurbishing the 220/110/20 kV substation Campia Turzii – 34,2 mill Lei;
- Integrated security system in electric substations, stage IV – 20,9 mill Lei;
- Extending the services that provide business continuity and recovery after disasters – 14,4 mill Lei;
- Converting the Iron Gates - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage I – Extending the 400 kV substation Iron Gates – 13,1 mill Lei;
- 400 kV double circuit OHL Cernavoda-Stalpu and connection in Gura Ialomitei – 7,5 mill Lei;
- Converting the Iron Gates - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage I - the 400 kV simple circuit OHL Iron Gates - (Anina) – Resita – 6,8 mill Lei;
- 400 kV HVDC Link (submarine Romania - Turkey cable) – 5,9 mill Lei;
- 400 kV OHL Gadalin - Suceava, including SEN interconnection – 5,6 mill Lei;
- Remedying the failure of 110-120 terminals from the 220 kV OHL Bucharest South – Ghizdaru – 4,3 mill Lei;
- Upgrade in order to reduce the galloping of the 400 kV OHL in the Baragan-Fetesti area; reducing the galloping effects on the 400 kV OHL Cernavoda-Pelicanu, 400 kV OHL Cernavoda-Gura Ialomitei (circuit 2) and on the 400 kV OHL Bucharest S - Pelicanu – 4,3 mill Lei;
- Converting the Iron Gates - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage I - the 400/220/110 kV substation Resita – 3,9 mill Lei;
- Connecting the 400 kV OHL Isaccea - Varna and of Isaccea - Dobrudja OHL in the 400 kV substation Medgidia Sud – 3,6 mill Lei;
- Adding new functions to the control and IT supervision of access in the objectives of CNTEE Transelectrica SA – 3,2 mill Lei;
- 400 kV OHL Suceava - Balti, for the project part on Romania's territory – 3,6 mill Lei;

- Converting the Iron Gates - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage II, the 400 kV double circuit OHL Resita - Timisoara – Sacalaz – 3,2 mill Lei;
- Replacing autotransformers and transformers in electric substations, stage 2 – 2,9 mill Lei;
- Integrated security system in electric substations, stage III – 2,8 mill Lei;
- Upgrading the 110 kV and 20 kV substations Suceava – 2,8 mill Lei;
- Upgrading the 220/110/20 kV substation Arefu – 2,7 mill Lei;
- Upgrading the 220/110/20 kV substation Raureni – 2,7 mill Lei;
- Upgrading the 220/110 kV substation Tihau - primary equipment – 2,6 mill Lei;
- By-passing the 110 kV OHL Cetate 1 & 2 near the 110/20/6 kV substation Ostrovul Mare – 2,6 mill Lei;
- 400 kV double circuit OHL Gutinas – Smardan – 2,3 mill Lei;
- Connecting the 27 MW WPP in the area of substation Stalpu, Buzau County to the RET by building two 110 kV bays in the 220/110 kV substation Stalpu – 2,1 mill Lei;
- Upgrading the dc and ac auxiliary services in the 400/110 kV substation Draganesti Olt – 1,9 mill Lei;
- Remedying urgently the failure of the 400 kV OHL Iernut-Gadalin and of the 220 kV OHL Iernut-Baia Mare 3 – 1,3 mill Lei;
- Installing optical fibre and modernising the tele-protection system of the 400 kV double circuit OHL Tantareni-Turceni and of the 400 kV simple circuit OHL Urechesti-Rovinari – 1,5 mill Lei;

In Q1 2016 the sum of 29,6 mill Lei was collected, representing the unused down payment for the segment of the new line Iron Gates - Anina from the investment project “Converting the Iron Gates - Resita - Timisoara - Salacaz - Arad to 400 kV / 400 kV OHL Iron Gates - (Anina) - Resita”, until the Governmental Decision is issued approving the technical-economic indicators and the expropriation procedure is initiated for private owned buildings.

CONTRACTUAL ASPECTS

In the first 9 months of 2016 a number of 54 investment contracts were signed for investment objectives amounting in total to 78,6 mill Lei, compared to 96 contracts for total amount of 210,8 mill Lei concluded in the first nine months of 2015.

The most important investment contracts signed in January – September 2016 are:

- Refurbishing the 400 kV substation Isaccea – Replacing the shunt reactors, associated bays and the 400 kV bay Stupina – 30,9 mill Lei
- Upgrading the 220/110 kV substation Dumbrava – 20,5 mill Lei;
- Replacing the components of the EMS SCADA system - software component – 11,0 mill Lei;
- Optical fibre communication in-between the 400/220/110 kV substation Bradu and the 220/110 kV substation Stuparei – 2,8 mill Lei;



Significant events

EVENTS in January - September 2016

- **Concluding the project "Modernization of the 400/110/20 kV Tulcea West Station"**

The project was implemented in Tulcea, Tulcea County, with a duration of 41 months and 15 days and it was framed within the 4th priority axis "Increasing energy efficiency and security of supply, in the context of combating climate change", operation "Supporting the investments in transmission networks extension and modernization for electricity, natural gas and oil in order to reduce the network losses and to accomplish in conditions of safety and stability the transmission and distribution services – transmission part".

The project's objective is to increase the energetic efficiency and safety in operation of the Electricity Transmission System by modernizing the electric transformer station and high voltage connections 400/110/20 kV Tulcea West, in the context of combating climate change.

- **Publication for public debate of the Plan to Develop the Electricity Transmission Grid in 2016-2025**

According to the attributions and abilities established by the Law of electricity and natural gas no. 123/2012, PTN Technical Code -Inspection I, approved by ANRE Order no. 20/2004, amended and supplemented by ANRE Order no. 35/2004 and the special Conditions associated to the License no. 161/2000 for performing electricity transmission service, system service and for the balancing market administration, National Power Grid Company Transelectrica S.A., performs the planning activity regarding the PTN development, taking into consideration the current stage and the electricity consumption and sources future evolution, including electricity imports and exports.

For this purpose, Transelectrica updates every 2 years the Power Transmission Network Development Plan for the next 10 successive years. After the Plan is approved by the competent authority and the transmission network owner agrees with the financing method for investments in the transmission network, this document becomes public.

Since March 17, 2016, the document "The Power Transmission Network Development Plan – 2016-2025" is posted on Transelectrica website, within the PTN Management section.

By decision of National Authority for Energy has approved the Development Plan of the Power Transmission Grid for 10 years (2016-2025). The total value of planned investments in the Development Plan of the Power Transmission Grid is estimated at Lei 5 billion. The mentioned value does not include the investments of new users at the Power Transmission Grid, the funding of these investments will be done by connection fee paid by the connected user.

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

The international credit rating agency Moody's Investors Service upgraded one notch the credit rating of Transelectrica yo Ba1 (previously Ba2), maintaining a stable prospect. The rating of Transelectrica remains only one notch below Romania's country rating (two notches previously), thus acknowledging the financial and managerial performance of the Company.

- **New ANRE regulations about tariffs**

ANRE published Order 27/ 2016 approving the average tariffs for transmission services, the tariffs for system services, the zone tariffs of transmission services and the regulated price for reactive electricity charged by the Company. The Order was published in the Official Gazette no. 477 / 27.06.2016.

Also by Decision. 802 of 05.18.2016 ANRE amended license no. 161 for the service of electricity transmission, delivery service management system and the balancing market, granted to the National Power Grid Company "Transelectrica" S.A.

- **Change in the shareholder structure of TEL**

On August 1st, the Financial Investment Fund Oltenia SA decreased its stake in the Company's share capital below the 5% treshold.

- **Incident in the Argeş and Vâlcea counties**

On June 1 a fault occurred and altered the power supply in Valcea county and partialy in Argeş county. The incident occurred only in that area, the switched off

consumption being of approx. 458.7 MW from the total consumption of NPS of 6774 MW recorded at 15:58h, the time of the incident. The total energy that was not supplied to consumers was 135.5 MWh. The safety functioning of the NPS was not interrupted by this incident, the main electric parameters (frequency, voltage, international exchanges) were within the normal limits and did not extend outside the mentioned area, did not damage the equipment and installations and did not have a negative impact on the environment.

The generation – consumption balance was quickly restored by using both the secondary control reserve and the tertiary reserve of NPS.

- **Incident in Mureş county area**

On 19.06.2016, at 19:53h, due to extreme weather conditions, in Iernut and Cuci, Mureş county (strong wind acting as tornado), a number of trips occurred in the electricity transmission network and the distribution network because of the damage of some components of the OHL from the area surrounding the 400/220/110 kV Iernut station.

The consumers' energy supply was not interrupted due to this tripping.

- **Change in the Directorate**

Since May 26, 2016 the mandate contracts of Mr. Ion SMEEIANU and Cătălin Lucian CHIMIREL ended by parties' agreement.

Since May 26, 2016, Mr. Luca-Nicolae IACOBICI was appointed by the Supervisory Board as Directorate Member on limited period of time until the appointing of a new Directorate Member in accordance with the provisions of GD 109/2011 with its amendments and additions regarding the corporate governance for public entities.

- **Changes in the Supervisory Board**

On March 23, Mr. Dragoş Corneliu ZACHIA-ZLATEA was appointed by the Supervisory Board Members as President of the Supervisory Board.

- **General Meetings of Shareholders**

On the March 28, the Extraordinary General Assembly of Shareholders (EGAS) and the Ordinary General Assembly of Shareholder (OGAS) took place. The main aspects included in the OGAS decision are:

- Approving the investments program for the 2016 financial year and investments expenses for 2017 and 2018;
- Approving the Budget proposal for Incomes and Expenses for 2016 of NPG Transelectrica

S.A., as well as estimations for 2017 and 2018;

- Approving the policy regarding the dividends distribution of NPG Transelectrica S.A.

The main aspects included in the EGAS decision are:

- Contracting legal services approval in order to optimize the credit costs, contracted with the internal and international creditor;
- Rejecting the joint stock decrease, representing the subscribed and paid joint stock of the Trading Company Subsidiary "Energy Research and Modernizing Institute – ICEMENERG" – S.A. because GD. 925/2010 provides not only capital reduction of their share of the Romanian State.

On April 29, the Extraordinary General Assembly of Shareholders (EGAS) and Ordinary General Assembly of Shareholder (OGAS) took place.

The main aspects included in the OGAS decision are:

- Approving the gross dividend per share for 2015 of 2.65 lei gross/ share, proper for the shareholders registered within TEL shareholders Register on June 8, 2016, ex-dividend date of June 6, 2016 and payment start date of June 28, 2016.
- Approving the annual financial situations separated and consolidated for 2015 financial year of National Power Grid Company Transelectrica S.A., as well as the annual report for 2015 regarding the economic and financial activity of the Company, according to the capital market legal provisions, grant discharge to the Executive Board and Supervisory Board members.

On 30 August the Shareholders' General Extraordinary Assembly (AGEA) and the Shareholders' General Ordinary Assembly (AGOA) took place. The main issues included in the decision of AGOA are:

- Empowering the state representative in the shareholders' general assembly to sign the addendums to the mandate contracts of the members in the Supervisory Board of the Company in office on 30.08.2016, as well as the contracts of the new members in the supervisory board;
- Electing by majority vote as members in the Supervisory Board for a mandate of identical expiry date with the mandate of members elected by AGOA Decision 4/30.05.2013, namely by 30.05.2017, two members in the Supervisory Board of CNTEE Transelectrica SA

- **Subsequent events – New Energy law**

On 8 November 2016 Law 203/2016 amending and adding the Electricity and natural gas law 123/2012 was published in the Official Gazette no. 892/08.11.2016.

The draft Order amending and adding the Methodology determining the electricity transmission service tariffs, approved by Order 53/2013 of ANRE, also includes the amendments proposed by the draft Law 203/2016, namely - the transmission and system operator should provide the same electricity transmission tariff for all users of the transmission grid and give up the zone-differentiated tariffs.

The Authority's objective, by this draft Order, is as following:

- charging a tariff for electricity exchanges scheduled with perimetral countries when SEN is used. Thus CNTEE Transelectrica SA should fully recover the contribution to the ITC compensation fund determined by the imports, exports and transfers from / into perimetral countries from economic operators that perform such commercial operations with Ukraine and the Republic of Moldova;

- the Company will provide all documents for the promotion and execution of investment projects, as well as review their efficiency based on the ex-ante and ex-post quantification of benefits obtained.



Other issues

SHAREHOLDERS' STRUCTURE

On 30.09.2016 the shareholders' structure was the following:

| Shareholder's name | No. of shares |
|---|-------------------|
| Romanian State through the Ministry of Economy, Commerce and Liaise with the Business Environment | 43,020,309 |
| Legal persons | 25,946,538 |
| Individuals | 4,336,295 |
| Total | 73,303,142 |

TARIFFS

In June the Official Gazette no. 477/27.06.2016 published Order 27/2016 of ANRE approving the average tariffs for transmission services, the tariffs for system services, the zone tariffs of transmission services and the regulated price for reactive electricity charged by the Company. Consequently the regulated tariffs associated to the electricity transmission services and system services applicable from 1 July 2016 are:

| Serviciu | Tariff applicable in 1 July 2015 - 30 June 2016 | Tariff applicable in 1 July 2016 - 30 June 2017 | Difference % |
|-------------------------------|---|---|--------------|
| | Lei/MWh | Lei/MWh | |
| Electricity transmission | 20.97 | 18.70 | -10.8% |
| Functional system services | 1.17 | 1.30 | +11.1% |
| Technological system services | 12.58 | 11.58 | -7.9% |

The new tariffs approved have been calculated in accordance with applicable methodologies.

DIRECTORATE MEMBERSHIP

On 30.09.2016 the Directorate membership was:

| | |
|-----------------------|----------------------|
| Ion - Toni TEAU | Directorate Chairman |
| Octavian LOHAN | Directorate Member |
| Constantin VADUVA | Directorate Member |
| Luca-Nicolae IACOBICI | Directorate Member |

Transmission tariff

The 10.8% tariff reduction mirrors mainly the negative corrections applied by the regulator to compensate the differences between the forecasted values used when calculating the tariff in previous years and the actual registered values (final corrections for the year 1 July 2014 - 30 June 2015, preliminary corrections for the year 1 July 2015 - 30 June 2016) according to the applicable methodology.

"Ex-post" corrections contributed to 7.2% tariff reduction. The most important calculation elements taken into account when making the "ex-post" corrections applied in the calculation of the new tariff approved are as follows: (i) the electricity procurement price to cover the technological consumption; (ii) the inflation index; (iii) a part of the revenues from the allocation of interconnection capacity is used as complementary source of the regulated tariff in order to cover regulated costs; (iv) increasing consumption and electricity export beyond the initial forecast of ANRE when designing the tariff.

Also besides the negative corrections there have been other factors that contributed to reducing the tariff such as:

- The indexed inflation index in the calculation of the new tariff approved (inferior to the inflation index used when calculating the tariff of last year) contributed -2.8% to tariff reduction;
- The basic revenue calculated as a sum of regulated costs (inferior to the one calculated for last year given the efficiency requirements imposed in the recognised operational expenses) and flattening the revenues within the regulated

period, these two elements having cumulated contribution of -0.8% to tariff reduction.

Tariff for functional system services

The 11.1% increase of this tariff was mainly determined by the higher negative correction applied in the tariff of last year compared to the minor negative correction applied to the new approved tariffs, corrections contributing +16.2% to tariff increasing. The basis of recognised expenses in the new approved tariff is slightly inferior to the basis of recognised expenses in last year's tariff, recognised costs contributing -5,1% in the tariff development.

Tariff for technological system services

The 7,9% decrease of the tariff was determined by:

- The negative correction applied to the new tariff approved in order to compensate the estimated profit to be obtained in the tariff year 1 July 2015 - 30 June 2016 determined by the significant reduction of procurement prices for power reserves under bids in comparison with the positive correction included in the tariff of the year corresponding to 1 July 2015 - 30 June 2016, as necessary to recover a historical loss. Such corrections contributed -4.8% to tariff reduction;
- The basis of recognised expenses in the new tariff approved to procure power reserves in the tariff year 1 July 2016 - 30 June 2017 is smaller than the basis of recognised costs in the previous tariff year 1 July 2015 - 30 June 2016, which decrease was owed to the reduced procurement prices for power reserves under bids in the last year. The reduced recognised expenses contributed -3.2% to tariff reduction.

DISPUTES

The most important disputes where the Company is involved are the following:

▪ RAAN

On the docket of Mehedinti Tribunalul, Section II Civil, Administrative and Fiscal Disputes file 9089/101/2013/A152 was registered, of contestation against the Additional Liability Table against debtor RAAN.

The disputed amount in this file is 78.096 thousand Lei. Transelectrica filed appeal against this sentence.

As a consequence of the partial registration of the total amount requested by Transelectrica in quantum of 89,361 thousand Lei și and taking into account Letter 4162/03.10.2016 whereby the judiciary liquidator informed us only the sum of 11.265 thousand Lei was registered in the additional table under liabilities resulting from the continued activities of the debtor, and the sum of 78.096 thousand Lei was rejected, contestation of the Additional liability table was submitted.

The deadline for submitting any dispute against receivables generated during the procedure, the elaboration, display and notification of the additional creditors table was set on 29.09.2016. Setting 9 October 2016 as deadline to submit the complaints for the liabilities generated during the procedure and 20 October 2016 as deadline to settle the complaints for the receivables generated during the procedure. Setting 10.11.2016 as deadline to elaborate and display the final consolidated creditors detail.

▪ ANRE

- NPG Transelectrica SA issued a complaint against the ANRE President's Order no. 51 / 26.06.2014 ANRE registration no. 47714 / 04.08.2014 and an appeal to the Bucharest Appellate Court which is the subject of the case file no. 4921/2/2014, requesting either the above mentioned Order's modification or issuing a new order, for the recalculation of the RRR value to the 9.87% level (recalculated with a coefficient (β) of 1.0359, according to the internal Transelectrica verifications) or, to the extent that this request will be rejected, using the same percentage of 8.52% established by ANRE for 2013 and the first semester of 2014.
- On June 26, 2014, the ANRE Order no. 51 was issued, published in the Official Gazette no. 474/27.06.2014, regarding the approval of the average transport tax, system service tax and local taxes corresponding to the transport service performed by National Power Grid Company Transelectrica S.A., and abrogation of the Annex no. 1 of the ANRE President's Order no. 96 / 2013 regarding the approval of the transmission service average tax, system service tax, local taxes corresponding to the transport service and the taxes for reactive electricity, practiced by the operators in the electricity sector.

- The values considered when calculating the regulated return rate (RRR¹) by ANRE according to the Methodology of establishing the taxes for electricity transport service approved by the ANRE Order no. 53/ 2013 (“Methodology”), determined a RRR value of 7.7%.
- NPG Transelectrica SA considers that applying the provisions of Art. 51 from the Methodology by establishing the Beta parameter (β) value of 0.432 will determine the company’s financial prejudicing, by decreasing the return rate with an estimated value of 138.4 mil lei³ having a significant impact on the financial interests of the society.
- At the hearing on 09.02.2016, the law court accepted the evidence with accounting expertise – financial investments specialty and other securities entities, prorogued the evidence deliberation with technical expertise – electro-energetic specialty, after submitting the evidence with accounting expertise – financial investments specialty and other securities entities.
- On the hearings on 25.03.2016, 22.04.2016 and 10.06.2016 the court postponed the case due to the absence of the technical expertise report. The next hearing was set on 09.09.2016 and by the date of elaborating this report, no other changes occurred.

▪ COURT OF ACCOUNTS

Following an inspection performed in 2013, The Court of Accounts decided that the Company should implement certain measures as a result of deficiencies found during this inspection. The decision and conclusion issued by the Court of Accounts were appealed to the Bucharest Appellate Court, case file no. 1658/2/2014.

In the hearing held on January 20, 2016, the law court postponed the case so as the accountant can state his own opinion regarding the complainant’s objections on the performed expertise report and so as the technical expert can perform the expertise paper.

On 29.06.2016 the court postponed the case in order to complete the technical expertise report. The next hearing was set on 26.10.2016.

¹ RRR- The regulated return rate can be found in the specialty literature under the abbreviated name of WACC– Weighted Average Cost of Capital – in translation The Capital Balanced Average Cost, the two indicators formula is similar: $RRR = WACC = CCP + Kp/(1 - T) + CCI \times Ki$

² Value which determined the RRR decrease by 7.7 %

³ Value calculated comparing to a RRR value of 8.52%

▪ OPCOM

On November 24, 2014, The Electricity and Natural Gas Market Operator - OPCOM SA, sued the Company, in order to force the Company to pay the amount of 582,086.31 euro (2,585,161.72 lei at the BNR exchange rate dated 24.11.2014), representing the amount paid by OPCOM as fine, of the total fine of 1,031,000 euro, the request being the object of the case file no. 40814/3/2014.

Previously, the OPCOM SA Subsidiary General Meeting of Shareholders decided, in the session dated 10.06.2014, the total payment of the fine in the amount of 1,031,000 euro – applied by the Competition General Directorate – European Commission for the violation of Art. 102 of the Treaty regarding the European Union functioning, according to the Decision in the antitrust case AT 39984.

Also, OPCOM SA requested the law court to force the Company in paying the amount of 84,867.67 lei as legal interest corresponding to the period 11.06.2014 – 24.11.2014.

The action filed by OPCOM SA, is the object of the case file no. 40814/3/2014, before the Bucharest Court, Civil Section VI, covering claims, matters of dispute with professionals and the trial date established for - 29.06.2015. The Company met a claim at the request of summons in this cause, pleading as exceptions and background defenses regarding the groundlessness and illegality of the action.

In the hearing dated 24.07.2015, the court granted the application for summons issued by the complainant The Electricity and Natural Gas Market Operator - OPCOM SA in contradiction with the defendant National Power Grid Company Transelectrica S.A., and forced the defendant to pay the complainant the amount of 582,086.31 de euro, representing the amount paid by the defendant instead of the complainant from the fine value of 1,031,000 de euro charged by the European Commission Decision dated on 05.03.2014 in the AT.39984 case and the legal interest payment, in the amount of 582,086.31 Euro, calculated on 11.06.2014 and until the date of actual payment .

Also, the court obliges the defendant to pay the complainant the amount of 37,828.08 lei, as court expenses, with the right to appeal within 30 days from the communication date.

Against the sentence no. 4275/2015, pronounced in the above mentioned file, Transelectrica SA issued an

appeal, which was registered before the Bucharest Court of Appellate. The term of court was established on 10.10.2016 and by the date of elaborating this report, no other changes occurred.

▪ **SMART**

Transelectrica filed a legal action against the Bucharest Trade Register director's resolution and against the documents issued by the SC Smart SA Subsidiary for increasing the joint stock, representing the object of the case file no. 14001/3/2015, before Bucharest Court – Civil Section VI, with hearing set for 07.09.2015.

On September 7, 2015, the court decided the disjunction of the litigations 2 and 3 within the request for summons issued by the complainant NPG Transelectrica in contradiction with the defendant Maintenance Services Society Subsidiary of Electric Transport Network Smart SA, the Romanian state through the General Secretariat of the Government and Trade Register, constituting a new case file with the hearing set on November 2, 2015. In the case file no. 14001/3/2015, for continuing the trial, the hearing was set on 19.10.2015.

On October 19, 2015, the court decided under art. 43, para.1, pt. 2 C civ. proc., the suspension of the application for summons issued by the complainant Transelectrica in contradiction with the defendants Maintenance Services Society Subsidiary of Electric Transport Network Smart SA, Romanian State and Trade Register, until the final resolution of the case file which is the object of the file no. 32675/3/2015 before the Bucharest Court – Civil Section VI.

In the case file no. 32675/3/2015, at the hearing dated 16.11.2015, the court accepted the inadmissibility exception, rejecting the application for summons issued by the complainant Transelectrica in contradiction with the defendants Maintenance Services Society Subsidiary of Electric Transport Network Smart SA, the Romanian State and Trade Register, as inadmissible, with the right to appeal within 30 days from the communication date. The sentence has not been communicated to the Company until this present report date.

Following the Company's appeal on 23.05.2016, the court dismissed the appeal as groundless. It admitted the request of the Constitutional Court. On the ground of Law no. 47/1992, art 29, line 4, it notified the Constitutional Court to resolve the exceptions of unconstitutionality of the provisions of Law no. 31/1990, art 114, line 3 reported to the provisions of the Constitution art. 16, 21 and 44, exception pleaded by the Company. The decision is final.

▪ **DAGESH ROM**

File 17284/3/2015 has as object claims representing rent indexation and delay penalties thereof.

On 16.09.2016 the law court rejected the defendant's objections as groundless. Admitted the fee increase request; ordered increasing the fee with 1.500 Lei, meaning 750 Lei for each party. It asked the parties to prove they paid the fee difference.

The following hearing date was set on 14.10.2016 and by the date of elaborating this report, no other changes occurred.



Annexes

ANNEX 1: Stand-alone statement of financial position on 30 September 2016

| [Lei thousand] | 30.09.2016 | 31.12.2015 |
|---|------------------|------------------|
| Assets | | |
| Non-current assets | | |
| Property, plant and equipment | 3.177.988 | 3.341.451 |
| Intangible assets | 12.073 | 34.570 |
| Financial assets | 78.532 | 55.944 |
| Long term receivables | 14.632 | 0 |
| Total non-current assets | 3.283.225 | 3.431.965 |
| Current assets | | |
| Inventories | 33.231 | 34.329 |
| Trade and receivables | 533.508 | 723.448 |
| Other financial assets | 293.245 | 70.085 |
| Cash and cash equivalents | 747.906 | 974.451 |
| Total current assets | 1.607.890 | 1.802.313 |
| Total assets | 4.891.116 | 5.234.278 |
| Shareholder's equity and liabilities | | |
| Shareholder's equity | | |
| Share capital, of which: | 733.031 | 733.031 |
| <i>Share capital subscribed</i> | <i>733.031</i> | <i>733.031</i> |
| Share premium | 49.843 | 49.843 |
| Legal reserves | 99.407 | 99.407 |
| Revaluation reserves | 562.205 | 603.685 |
| Other reserves | 56.954 | 55.695 |
| Retained earnings | 1.548.199 | 1.487.645 |
| Total equities | 3.049.639 | 3.029.306 |
| Non-current liabilities | | |
| Long term deferred revenues | 439.463 | 462.721 |
| Borrowings | 504.690 | 634.590 |
| Deferred tax liability | 30.587 | 34.663 |
| Employee benefits obligations | 34.669 | 34.669 |
| Total non-current liabilities | 1.009.410 | 1.166.644 |
| Current liabilities | | |
| Trade and other liabilities | 592.179 | 776.168 |
| Other tax and social security liabilities | 20.792 | 6.763 |
| Borrowings | 143.888 | 167.362 |
| Provisions | 29.828 | 38.255 |
| Short term deferred revenues | 33.424 | 33.408 |
| Income tax payable | 11.954 | 16.371 |
| Total current liabilities | 832.066 | 1.038.328 |
| Total liabilities | 1.841.476 | 2.204.972 |
| Total shareholder's equity and liabilities | 4.891.116 | 5.234.278 |

ANNEX 2: Stand-alone profit and loss account for the period ended 30 September 2016

| [Lei thousand] | 01 July - 30 September 2016 | 01 July - 30 September 2015 | 01 January - 30 September 2016 | 01 January - 30 September 2015 |
|---------------------------------------|--------------------------------|--------------------------------|-----------------------------------|-----------------------------------|
| Operational revenues | | | | |
| Transmission revenues | 257.159 | 292.191 | 852.263 | 971.531 |
| System service revenues | 163.105 | 174.522 | 529.629 | 544.197 |
| Balancing market revenues | 117.073 | 309.021 | 483.686 | 661.130 |
| Other revenues | 11.020 | 13.693 | 32.401 | 38.716 |
| Total revenues | 548.358 | 789.427 | 1.897.979 | 2.215.574 |
| Operational expenses | | | | |
| System operating expenses | (52.077) | (54.210) | (172.561) | (175.749) |
| Balancing market expenses | (117.073) | (309.022) | (483.686) | (661.131) |
| Technological system service expenses | (114.479) | (140.781) | (447.452) | (504.364) |
| Amortisement | (81.077) | (79.063) | (243.891) | (239.269) |
| Personnel expenses | (47.385) | (41.931) | (132.100) | (125.971) |
| Repairs and maintenance expenses | (27.209) | (23.619) | (62.737) | (62.414) |
| Consumable expenses | (1.776) | (2.108) | (5.515) | (6.648) |
| Other operational expenses | (26.153) | (30.601) | (88.777) | (81.667) |
| Total operational expenses | (467.229) | (681.335) | (1.636.719) | (1.857.213) |
| Operational profit | 81.129 | 108.092 | 261.260 | 358.361 |
| Financial revenues | 9.115 | 14.474 | 27.187 | 44.565 |
| Financial expenses | (7.141) | (12.065) | (30.740) | (43.867) |
| Net financial result | 1.975 | 2.408 | (3.553) | 699 |
| Profit before income tax | 83.103 | 110.501 | 257.707 | 359.060 |
| Income tax | (11.584) | (16.264) | (44.379) | (54.406) |
| Profit of the period | 71.519 | 94.237 | 213.328 | 304.654 |

ANNEX 3: Stand-alone statement of cash flows on 30 September 2016

| [Lei thousand Lei] | 9 months' period ended 30.09.2016 | 9 months' period ended 30.09.2015 |
|---|--------------------------------------|--------------------------------------|
| Cash flows from operational activities | | |
| Profit of the period | 213.328 | 304.655 |
| Adjustments for: | | |
| Income tax expense | 44.379 | 54.406 |
| Amortisement expense | 243.891 | 239.269 |
| Provision for impairment of trade receivables and other receivables | 16.152 | 15.408 |
| Reverse of provisions for impairment of trade receivables and other receivables | (8.916) | (20.909) |
| Net profit/loss from disposal of property | (98) | 813 |
| Reverse of adjustments of property, plant and equipment | 2.857 | 6.427 |
| Net reversal of adjustments to the provisions for risks and expenses | (8.439) | (5.738) |
| Interest expense, interest revenue and unrealised foreign exchange rate gains | 3.467 | (702) |
| Cash flows before changes in the current capital | 506.622 | 593.629 |
| Changes in: | | |
| Trade and receivables – operational activities | 178.101 | 227.752 |
| Clients – support scheme for high efficiency cogeneration | (10.177) | 114.787 |
| Inventories | 1.098 | (605) |
| Trade and other liabilities – operational activities | (82.935) | (175.409) |
| Liabilities – support scheme for high efficiency cogeneration | (96.588) | (88.773) |
| Other tax and social security liabilities | 14.029 | (1.025) |
| Deferred revenue | (21.983) | (49.959) |
| Cash flows from operational activities | 488.167 | 620.397 |
| Interest paid | (10.707) | (15.722) |
| Income tax paid | (52.572) | (52.472) |
| Net cash from operational activities | 424.588 | 552.203 |
| Cash flows used in investments | | |
| Purchase of property, plant and equipment and of intangible assets | (117.447) | (139.320) |
| Proceeds from unused down payments | 29.581 | 0 |
| Proceeds from the sales of property, plant and equipment | 14 | 0 |
| Interest received | 4.590 | 10.238 |
| Dividends received | 3.038 | 7.072 |
| Other financial assets | (223.160) | 0 |
| Net cash used in investments | (303.384) | (122.010) |
| Cash flows used in financing | | |
| Repayments of long term loans | (153.614) | (171.450) |
| Dividends paid | (194.135) | (204.599) |
| Net cash used in financing | (347.749) | (376.048) |
| Net (decrease)/increase of cash and cash equivalents | (226.545) | 54.145 |
| Cash and cash equivalents on 1 January | 974.451 | 865.238 |
| Cash and cash equivalents at the end of the period | 747.906 | 919.382 |

ANNEX 4: Executing the Revenue and Expense Budget on 30 September 2016

Execution of the Revenue and Expense Budget

| [Lei million] | Budget 9L 2016 | Realizat 9L 2016 | Realizat/ Budget |
|--|-------------------|---------------------|---------------------|
| Billed volume of energy [TWh] | 39,48 | 39,16 | ▼ 0,8% |
| Regulated tariffs [Lei/MWh] | | | |
| Electricity transmission (average tariff) | 20,97 | 20,11 | ▼ 4% |
| Functional system services | 1,24 | 1,21 | ▼ 2% |
| Technological system services | 12,58 | 12,28 | ▼ 2% |
| PROFIT ALLOWED ACTIVITIES | | | |
| Operational revenues | 990 | 933 | ▼ 6% |
| Operational expenses | 549 | 462 | ▼ 16% |
| EBITDA | 441 | 472 | ▲ 7% |
| Amortisement | 260 | 244 | ▼ 6% |
| EBIT | 181 | 228 | ▲ 25% |
| ZERO PROFIT ACTIVITIES | | | |
| Operational revenues | 1.075 | 965 | ▼ 10% |
| Operational expenses | 1.083 | 931 | ▼ 14% |
| EBIT | -7 | 34 | ▲ 556% |
| ALL ACTIVITIES (PROFIT ALLOWED AND ZERO-PROFIT) | | | |
| Operational revenues | 2.065 | 1.898 | ▼ 8% |
| Operational expenses | 1.632 | 1.393 | ▼ 15% |
| EBITDA | 434 | 505 | ▲ 17% |
| Amortisement | 260 | 244 | ▼ 6% |
| EBIT | 174 | 261 | ▲ 50% |
| Financial result | -6 | -4 | ▲ 40% |
| EBT | 168 | 258 | ▲ 53% |

PROFIT ALLOWED ACTIVITY

EBITDA: 472 mil. lei (▲7%)

EBIT: 228 mil. lei (▲25%)

REVENUES: ▼6%

TARIFFS:

- Transport: ▼1%
- SSF: ▼2%

EXPENSES: ▼13% (includes depreciation & amortisation)

CPT: ▼14%, below the budgeted value

Maintenance RET: ▼35% (major maintenance was carried out 43% and the IT&TC - 49% of the budgeted value)

Other costs: ▼11%, the main budget unrealised goals:

- Inventory expenses (dismantling existent equipment in electric substations after refurbishment and modernisation) with 10.1 mill Lei difference
- Other services provided by third parties - 19 mill Lei
- Provision expenses amounted to 1.7 mill Lei (mainly after registration of adjustments for impairment of non-deductible assets) compared to the - 12.9 mill Lei in the budget

ANNEX 5: Economic-financial indicators in the reporting period

| Indicators | Calculation formula | 30.09.2016 | 30.09.2015 |
|---|--|------------|------------|
| Indicator of current liquidity (x) | $\frac{\text{Current assets}}{\text{Current liabilities}}$ | 1,93 | 1,75 |
| Indicators of indebtedness (x): | | | |
| (1) Indicator of leverage | $\frac{\text{Borrowed capital}}{\text{Equity}} \times$ | 16,55% | 21,72% |
| (2) Indicator of leverage | $\frac{\text{Borrowed capital}}{\text{Committed capital}} \times$ | 14,20% | 17,85% |
| Clients turnover (days) | $\frac{\text{Average client balance} *}{\text{Turnover}} \times 270$ | 19,52 | 29,93 |
| Turnover of non-current assets (x) | $\frac{\text{Turnover}}{\text{Non-current assets}}$ | 0,57 | 0,64 |

*When calculating the average balance account, the customers contributing to the turnover have been taken into consideration (energy, balancing, other customers, customer's invoices to be issued). The values corresponding to the doubtful customers, cogeneration scheme and overcompensation were not included within the average balance account.

Annex 6 REPORT (as per HAGEA 4/29.04.2015) regarding contracts signed in Q3 / 2016 to procure goods, services and work that amount to over 500,000 Euro/ purchasee (for goods and work) namely 100,000 Euro/purchase (for services)

| No. | Contract number | Contractual object | Term | Value | | Contract type | Legal base | Procurement procedure |
|-----|-----------------|--|-----------|--------------|---------------|---------------|----------------------|---|
| | | | | Thousand Lei | Thousand Euro | | | |
| 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | C 174/2016 | Refurbishing the 400 kV substation Stupina Isaccea stage I-replacing the shunt reactors, associated bays and the 400 kV bay Stupina | 34 months | 0,0 | 6.869,0 | Work | OUG 34/2006 | Open bid |
| 2 | C 165/2016 | Procurement of primary equipment of medium and high voltage (subsequent contract 1 to the framework agreement C 14/2016) | 12 months | 3.583,6 | 0,00 | Supply | OUG 34/2006 | Inquiry |
| 3 | C 161/2016 | Car fuel for the motor car fleet and the diesel units that belong to CNTEE "Transelectrica" S.A. | 24 months | 5.494,5 | 0,00 | Supply | OUG 34/2006 | Open bid |
| 4 | C 147/2016 | Elaborating / upgrading the solution studies for the utilisation asking grid connection to CN Transelectrica SA and upgrading the operational regime calculations, for the users that ask energising from CN Transelectrica SA | 36 months | 6.732,0 | 0,00 | Services | OUG 34/2006 | Open bid |
| 5 | BA 618/2016 | Major maintenance operations in the 400 kV substations Bacau sud & Roman nord remaining after converting the Gutinas - Bacau sud - Roman nord – Suceava axis to 400 kV - execution | 12 months | 3.630,0 | 0,00 | Work | OUG 34/2006 | Inquiry |
| 6 | CJ 21/2016 | Major maintenance to the 220 kV dd OHL Cluj Floresti - Alba Iulia ; Cluj Floresti - Campia Turzii ; Iernut - Campia Turzii (execution) | 36 months | 9.675,0 | 0,00 | Work | OUG 34/2006 | Open bid |
| 7 | CT 593/2016 | Capital repairs to the 250 MVA 400/110/20 KV series 140838/1997 transformer T2 from substation Smardan | 5 months | 1.073,5 | 0,00 | Services | OUG 34/2006 | Open bid |
| 8 | SB 21/2016 | Specific guard, monitoring and intervention services to the objectives of ST Sibiu | 36 months | 5.591,8 | 0,0 | Services | Exceptie OUG 34/2006 | Open bid |
| 9 | C 117/2016 | Replacing the components of the EMS SCADA AREVA system - software component | 24 months | 10.982,4 | 0,00 | Services | OUG 34/2006 | Negotiation with no preliminary publication of participation announcement |

Annex 7 – Glossary of words and acronyms

| | |
|----------------------------|--|
| ANRE | National Regulatory Authority in the Electricity domain |
| BAR / RAB | Regulated asset base |
| BVB | Bucharest Stock Exchange, operator of the regulated market where shares are transacted |
| CEE / EEC | European Economic Community |
| Company, CNTEE, TEL | National Power Grid Company Transelectrica SA |
| CPT | Own technological consumption (losses) |
| CS | Supervisory Board |
| DEN | National Power Dispatcher |
| EBIT | Operational profit before interest and income tax |
| EBITDA | Operational profit before interest, income tax and amortisation |
| EBT | Operational profit before income tax |
| ENTSO-E | European Network of Transmission and System Operators of Electricity |
| GD | Governmental decision |
| IFRS | International Financial Reporting Standards |
| JPY | Japanese Yen, official currency of Japan |
| OHL | Overhead electric lines |
| Leu or Lei or RON | Official currency of Romania |
| MFP | Ministry of Public Finance |
| MO | Official Gazette of Romania |
| GO | Governmental ordinance |
| OPCOM | Operator of the Electricity Market from Romania OPCOM SA |
| GEO | Governmental emergency ordinance |
| PZU / DAM | Day Ahead market |
| RET | Electricity transmission grid, which is of national and strategic interest and is above 110 kV nominal voltage value |
| SEN | Romanian Power System |
| SMART | Trading Company for Maintenance Services to the Electricity Transmission Grid SMART SA |
| SSF | Functional system service |
| SST | Technological system service |
| TEL | Stock exchange indicator for Transelectrica |
| TSR | Total shareholders' return |
| EU | European Union |
| m. u. | Measuring unit |
| USD or US dollars | American dollar, official currency of the United States of America |
| WACC | Weighted average cost of capital |