



**Transelectrica<sup>®</sup>**

**Societate Administrată în Sistem Dualist**

**2016 Annual Report**

**ANNUAL REPORT**  
**On the stand-alone financial statements of the**  
**CNTEE TRANSELECTRICA SA**

executed in accordance with Order 1286/2012 of the Minister of Public Finance with later amendments and additions and elaborated in according with Law 297/2004 on the capital market and of Annex 32 from Regulation 1/2006 of the National Securities Commission,

**for the financial year ended on 31 December 2016**

<b>Date of the report:</b>	23 March 2017
<b>Name of issuer:</b>	CNTEE TRANSELECTRICA SA, company managed under two-tier system
<b>Headquarters:</b>	Bucharest 1, Blvd. Gen. Gheorghe Magheru no. 33, postal code 010325
<b>Working location:</b>	Bucharest 3, Str. Olteni no. 2-4, postal code 030786
<b>Phone / fax numbers:</b>	021 303 5611/ 021 303 5610
<b>Single code with ORC:</b>	13328043
<b>Sequence number in the RC:</b>	J40/8060/2000
<b>Date of Company establishment</b>	31.07.2000/ OUG 627
<b>Capital social:</b>	733,031,420 Lei, subscribed and paid
<b>Regulated market where the issued securities are transacted:</b>	Bucharest Stock Exchange, Premium category
<b>Main characteristics of the issued securities:</b>	73,303,142 shares of 10 Lei / share nominal value each, dematerialised nominative ordinary indivisible shares freely transactable from 29.08.2006 under the symbol TEL
<b>Total market value:</b>	2,140,451,746 Lei (29.2 Lei/share on 30.12.2016)
<b>Accounting standard applied:</b>	International Financial Reporting Standards
<b>Auditing:</b>	The stand-alone financial statements have been audited

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**REPORT OF  
GOVERNANCE  
STRUCTURES**

**2016**

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## Message of the Supervisory Board

In 2016 the National Power Grid Company Transelectrica SA successfully achieved its mission to provide safe steady-state operation of the Romanian Power System by delivering electricity transmission services, system services and administration of the balancing market according to the Electricity and natural gas law and to Licence 161.

The Supervisory Board was interested in both improving corporate profitability and maintaining its image of solid and reliable partner for all employees.

In its capacity of transmission and system operator in Romania Transelectrica has been permanently concerned with consolidating and extending the electricity transmission infrastructure by upgrading the transmission grid using state-of-the-art technologies.

At the same time the Company has elaborated a ten years' development plan of the electricity transmission grid by which it aims at upgrading the existing electric substations and also at building new lines. All these investments will consolidate the electricity transmission infrastructure and will develop the electricity market.

developing and upgrading the system, relying on a modern efficient infrastructure of national electricity transmission and providing the necessary to bring the electricity transmission grid in compliance with the future market requirements

Dragos-Corneliu ZACHIA-ZLATEA

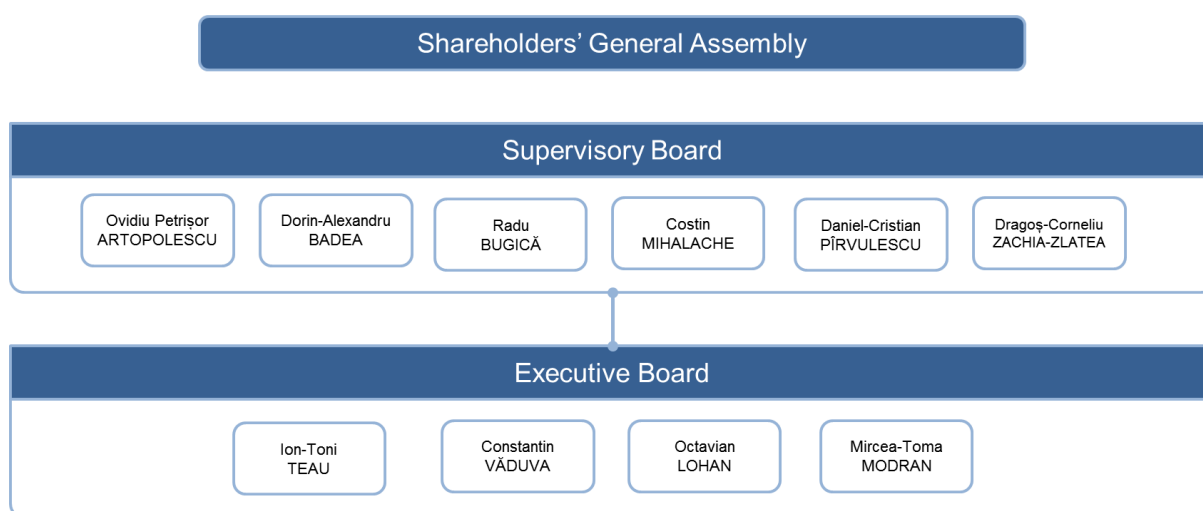
Chairman of the Supervisory Board

## Supervisory Board

The National Power Grid Company Transelectrica SA ("CNTEE Transelectrica SA", "Transelectrica" or "Company") is a joint stock company organised and operating in accordance with Romania's laws, being managed under two-tier system according to

the decision of 18 July 2012 of the Shareholders' General Extraordinary Assembly by a Directorate (4 members) under supervision of a Supervisory Board (6 members).

Figure 1: Organisational structure



On the date of this Report, the Supervisory Board membership with mandate term of 4

years, namely until 30.05.2017, is the following:



**Dragos Corneliu ZACHIA-ZLATEA - Chairman of the Supervisory Board** has over 33 years' professional experience.

Mr Dragos Corneliu Zachia - Zlatea is Technical and Generation Department Manager with the Hydropwer Service Company Hidroserv SA, coordinating the technical and output activities, including management of large scale projects for refurbishment of power plants and electric substations.

In his over 33 years of experience in the energy domain he held many managerial positions with SC Hidroelectrica SA, including that of Director General and Directorate Member.

Mr Dragos Corneliu Zachia - Zlatea graduated the Power Engineering – Hydropwer College (1977-1982). Mr Zachia - Zlatea has also attended specialisation courses in various domains (leadership and change

management, management of organisational risks, architecture of EMSYS, etc), as well as post-graduate courses (competitive management and quality management of power systems) organised both in the country and abroad.



**Ovidiu Petrisor Artopolescu - Member of the Supervisory Board**, has over 31 years professional experience. His professional expertise includes positions of Director for Complex Projects with Microsoft Central & Eastern Europe (May 2007 – Feb. 2009), General Manager, Acting General Manager, Enterprise & Partners Group Manager, Business Development Manager with Microsoft Romania, Project Manager and Quality Assurance Manager with IBM Romania and researcher in the Computation Technique Institute.

He has previously held the position of Secretary of State in the Ministry of Communications and IT Society (May-September 2012);

Mr Ovidiu Artopolescu graduated the Polytechnic University of Bucharest – Automations and Computer College (1981).

**Dorin Alexandru Badea - Member of the Supervisory Board** has over 15 years' professional experience in the banking and business environment, of which 10 years in managerial positions with companies such as the Romanian Bank of Credits and Investments (Deputy Director General, Financial Markets Division), Atrium Capital (Executive Director) and UniCredit Tiriac Bank (Treasury Director).



During his professional activity Mr Dorin Alexandru Badea was President of CFA Institute Romania, Member in the Board of ACI Romania and CFA Romania, founding member Chairman of the Business Commission – JCI Romania, as well as member in the Commission of Bucharest Stock Exchange Indexes.

Mr Dorin Alexandru Badea graduated the Academy of Economic Studies Bucharest – Finance, Insurance, Banks and Stock Exchanges College, while holding the CFA title granted by CFA Institute.

Mr Badea also has got the professional certification of Energy Risk Professional from GARP – Global Association of Risk Professionals and graduated training programmes in Management, Leadership, Coaching, Communication, Strategy and Corporative Governance.



**Radu Bugica - Member of the Supervisory Board**, has over 25 years' professional experience. Besides the capacity of Supervisory Board member in Transelectrica, currently he is also Member in the Board of Administration of Conpet SA (as of October 2013) and President of the Board of Administration / representative of the President of the Board of Administration of Covalact SA and Lactate Harghita SA, companies controlled by the SigmaBleyzer SouthEast Europe Fund IV (as of June 2007, namely June 2008);

In 1997 – 2005 he worked with Global Securities, broker and regional investment bank, where he became the Director General of the Romanian branch, Global Securities. Among others he led the team that listed SNP Petrom with the Stock Exchange; he was part of the team that intermediated the first ADR/GDR emission of a Romanian company. Before 2005 he worked with Bancpost as Chief Dealer.

Mr Radu Bugica graduated the Polytechnic University of Bucharest – College of Machine Building Technologies (1990) and the Academy of Economic Studies of Bucharest – Finance, Banks and Stock Exchanges College (1997).

**Costin Mihalache - Member of the Supervisory Board** has over 25 years' professional experience.



Mr Costin MIHALACHE has got sound professional experience of public administration, superior management at national and multi-national level, but also in foreign policy and economy.

When Transelectrica was under administration by the Secretariat General of the Government Mr Costin MIHALACHE had essential contribution to identifying and promoting norms as necessary to develop Company activities and by supporting projects of internal extension and international interconnection of the electricity transmission grid.

Mr Costin Mihalache speaks fluently English, German and Chinese.

He attended the courses of CAESAR school from Koln, RF Germany (1974 – 1978), then graduated later High School 34 of Bucharest with German taught courses (1978 – 1986).

He is a law bachelor (1990 - 1994) and attended the Chinese language and literature courses of the University from Beijing (1995 - 1999).



**Daniel-Cristian Pirvulescu - Member of the Supervisory Board**, has eight years' experience in the energy domain and currently holds the position of Director General of SC ENEVO GROUP SRL.

He has previously worked with SC ROMELECTRO SA, as Director of Business Development and International Cooperation. As such he coordinated the development of energy projects, rehabilitation and new projects in hydropower, thermal power, co-generation and renewable energy. He also held the position of President of the Board of Administration of SC ENTREX SRL, company specialising in electricity supply.

Mr Daniel-Cristian Pirvulescu graduated the Polytechnic University of Bucharest – Power Engineering College (2006) and is founding member of Electrical Engineering Students' Association Bucharest (2002), non-governmental non-profit organisation addressed to students of the electric power domain from European universities and schools.

Supervisory Board members are elected by the Shareholders' General Assembly according to legal requirements by quorum and vote majority. On the issuance date of this Report Transelectrica is not aware of any agreements, understandings or family connections of Supervisory Board members and other persons due to which they could have been appointed administrators.

When this report is elaborated Transelectrica is not aware of disputes or administrative procedures against the Supervisory Board, in relation to its activity within the issuer or with respect to the capacity of such persons to perform their attributions with the issuer.

Transelectrica is not aware whether any Supervisory Board member held TEL shares on 31.12.2016.

Three consultative committees operate in the Supervisory Board on the date of this report: a nomination and remuneration committee, an

audit committee and an energy security committee.

As a consequence of Law 111/2016 being enforced on 4 June 2016, significantly amending and adding the provisions of GEO 109/2011 on the corporative governance of public enterprises and in the context of Messrs Alexandru Dorin Badea and Manuel Costescu being appointed Supervisory Board members on 30.08.2016, AGA approved their remunerations different from those previously approved, both in terms of the fixed remuneration component and of limiting the quantum of the variable component to maximum 12 fixed monthly indemnifications.

Mention should be made Law 111/2016 provides, with respect to the mandate contracts of Supervisory Board and Directorate members, to remain subject to the legislation applicable on their conclusion date, unless the parties agree amending them according to Law 111/2016".

## Consultative committees of the Supervisory Board

### Audit committee

*Radu Bugica*, Dragos-Corneliu Zachia-Zlatea, Daniel-Cristian Pirvulescu and Dorin-Alexandru Badea are members in this committee.

The audit committee has attributions, among others, to monitor the efficiency of internal control, internal audit and risk management systems within Transelectrica, to check and monitor the external auditors' independence, the statutory audit activities to annual financial statements as well as the approaches proposed by external auditors, coordinating everybody's activity with the internal audit.

The Audit committee monitors the financial and managerial reporting process as well as the financial plan and the elaboration of annual financial statements and consolidated annual financial statements, monitors and examines the achievement of performance indicators of the transmission system and the economic-financial performance indicators of company activities.

The Audit committee plays an important part in the reviews of the monitoring system efficiency, its compliance with the laws and regulations applicable to Company activities and the results of managerial investigations in case of non-compliance.

At the same time it provides assistance to the Supervisory Board to carry out its supervision and surveillance responsibilities on the elaboration and update of the company's general development strategy; it assists the Supervisory Board in detecting the major development lines in the domain and makes recommendations for the major topics to be considered of potential impact in the administration and in the management plan.

The observance of corporative governance principles established in the new Corporative Governance Code of the Bucharest Stock Exchange is a permanently assumed commitment by the Supervisory Board. Through the Audit committee the Supervisory Board aims at enhancing transparency with respect to the activities of organisational

entities of the Company by implementing new internal regulations for internal public audit and the management of significant risks within CNTEE Transelectrica SA.

### Nomination and remuneration committee

*Costin Mihalache* Daniel-Cristian Pirvulescu, Ovidiu-Petrisor Artopouloscu and Dorin-Alexandru Badea are members in this committee.

As far as the nomination area is concerned, the Nomination and remuneration committee coordinates the appointment of Directorate members and makes recommendations with respect to both Directorate membership positions and filling the vacancies of the Supervisory Board.

The Nomination and remuneration committee sets the requirements for certain positions filling in the Company administration and permanently updates the professional competencies of Directorate members. The Nomination and remuneration committee validates the Company's organisational chart.

As far as the remuneration area is concerned, the Nomination and remuneration committee elaborates the remuneration policy and submits it to the Shareholders' General Assembly for approval.

The Nomination and remuneration committee provides the total amount of the direct and indirect remuneration for Directorate and Supervisory Board members in the annual report, while observing the proportionality principle with responsibility and with the time dedicated by them to their tasks.

### Energy security committee

*Dragos-Corneliu Zachia-Zlatea, Daniel - Cristian Pirvulescu and Ovidiu-Petrisor Artopolescu* are members in this committee.

The Energy security committee monitors and advises the Supervisory Board, the Directorate and the Company's specific compartments in the implementation of the administration strategy and of the Management Plan in the domain of strategic objectives for the system operator, and energy security for the entire National Power System ("SEN"), energy

security in the entire electricity transmission grid ("RET") and energy security and protection of the critical infrastructure.

Another competency means involving, under the Supervisory Board's mandate, together with the Directorate, in the dialogue with public authorities competent in the energy security sector (Department of Energy, specific Commissions of the Parliament).

### Changes in the Supervisory board

- **06 January 2016** – Taking into account that, following Mrs Carmen NEAGU's resignation, the Supervisory Board no longer had a chairperson, according to the Articles of association of CNTEE Transelectrica SA, Supervisory Board members will carry out the chairman attributions by turns, in alphabetical order, until the Supervisory Board membership is completed.
- Mr Daniel-Cristian PIRVULESCU was appointed member in the Nomination and Remuneration Committee of the Supervisory Board.
- Mr Costin MIHALACHE replaced Mr Radu Stefan CERNOV in the chairman position of the Nomination and Remuneration Committee from the Supervisory Board.
- The Financial and Development Committee was cancelled and its attributions were taken over by the Audit Committee of the Supervisory Board.
- Mr Daniel Cristian PIRVULESCU was appointed member in the Audit Committee of the Supervisory Board.
- The Committee liaising with regulatory and strategic authorities was cancelled and its attributions were taken over by the Energy security committee of the Supervisory Board.
- **23 March 2016** – SB members by mutual agreement elected Mr Dragos-Corneliu ZACHIA ZLATEA as chairman of the Supervisory Board.
- **30 August 2016** – AGA Decision no. 5 of 30 August 2016 designated Messrs Sorin Alexandru BADEA and Manuel COSTESCU as members in the Supervisory Board.
- **03 October 2016** - Mr Dorin Alexandu BADEA was designated member in the Nomination and Remuneration Committee of the Supervisory Board
- Mr Manuel COSTESCU was designated member in the Audit Committee of the Supervisory Board.
- **14 December 2016** – the Supervisory Board acknowledged Mr Manuel COSTESCU's resignation from his capacity of member in the Supervisory Board of Transelectrica.

# **Report of the Supervisory Board**

## **with respect to the stand-alone financial statements executed in accordance with the International Financial Reporting Standards**

The Supervisory Board relies on the corporative governance principles, which statuate a responsible professional ethical Company attitude towards all stakeholders. The Board analyse the Company strategy and the premises of the environment in which it operates with a view to plan the development and performance of Transelectrica thus providing rigorous articulation of objectives. The Company's Directorate supplied detailed information in the Supervisory Board about the stand-alone 2016 financial statements, the management plan, the maintenance schedule and planned investments. We have assessed the transactions significant for Transelectrica during plenary meetings, using the reports submitted by the Directorate.

SC Deloitte Audit SRL has audited the stand-alone 2016 financial statements, reviewed the conformity of the Directorate's Annual Report with the stand-alone financial statements. Consequently it issued an unreserved audit opinion.

The stand-alone financial statements and the audit report were submitted to the Supervisory Board for examination. Beginning with January 2016, the attributions of the Financial and Development Committee were taken over by the Audit Committee that submitted a report to the Supervisory Board with the review of financial results from 2015 and recommended the Supervisory Board to endorse the stand-alone financial statements executed in accordance with Order 2844/2016 of the Minister of Public Finance.

At the same time the Directorate's Annual Report elaborated in accordance with the requirements from the legislation on the capital market was reviewed by the Supervisory Board members. The Directorate Report provides a faithful accurate image of the Company's stand-alone results of the 2016 financial year.

The Audit Committee provides assistance to the Supervisory Board to perform its own supervision responsibilities of financial reporting, managerial reporting, internal control, audit processes and the organisational monitoring of the compliance with laws, regulations and the code of conduct.

Transelectrica's stand-alone financial statements executed in accordance with IFRS were endorsed at the Supervisory Board's meeting of 22 march 2017 according to the recommendation of the Audit Committee and these were submitted for approval to the Shareholders' Ordinary Assembly, convened for the first reunion on 27 April 2017.

### *Supervisory Board*

Dragos Corneliu Zachia-Zlatea

Chairman of the Supervisory Board



## Message of the Directorate

The *National Power Grid Company Transelectrica SA* manages and operates Romania's electricity transmission system and provides electricity exchanges between the central east European countries, in its capacity of ENTSO-E member. The Company provides electricity transmission and system operation, develops the infrastructure of the electricity transmission grid while also providing security of the National Power System.

Taking into account the consolidation of the electricity transmission infrastructure, it is and remains an essential objective, therefore the National Power Grid Company Transelectrica SA signed in 2016 seven contracts for investment projects in the electricity transmission grid (RET), amounting in total to 157 mill Lei and commissioned investment objectives of 88 mill Lei.

Transelectrica has updated the Development plan of the electricity transmission grid for 10 years (2016-2025), which aims at both extending the electricity transmission network by building new lines and refurbishing the existing substations. The total amount of investments planned in the next 10 years has been estimated at about 5 billion Lei.

The development of the Company in 2016 was well evaluated by the international credit rating agency Moody's Investors Service that upgraded Transelectrica's credit rating from Ba2 to Ba1, getting recognition for the Company's sound operational results and improved financial performance. Total operational expenses decreased in 2016 in comparison with the similar time of last year.

The actions performed in 2016 and those forecasted for next years enable the National Power Grid Company Transelectrica SA to provide the operation of the National Power System at qualitative standards as well as the operation of the electricity transmission grid under transparent conditions.

*Ion – Toni Teau*

*Directorate Chairman*

## Directorate

On the issuing date of this report the membership in the Directorate of Transelectrica is as follows:



**Ion-Toni Teau - Executive Director General, Directorate Chairman**, has over 22 years' professional experience. Mr Ion-Toni TEAU has been previously Member in the Supervisory Board of Transelectrica beginning with 30.05.2013, being subsequently elected chairman of the Supervisory Board (25.06.2013 - 10.05.2014).

He has also been President of the Fiscal Consultants' Chamber from Romania since February 2013.

Mr Teau graduated the Academy of Economic Studies Bucharest – Finance, Credit and Accounting College (1987-1992), and in 2002 he obtained the title of doctor of economy.



**Octavian Lohan – Directorate Member**, has over 40 years' professional experience in the technic domain, of which the last 15 years in various positions of operational management, that of director of the National Power Dispatcher being significant. He stands out by vast nation-wide activities in the national power system (SEN) of Romania and equally by cooperation with the transmission and system operators of European countries which Romania's SEN is interconnected with, in order to develop the single European electricity market.

Mr Octavian Lohan graduated the Electric Power Engineering College of the Polytechnic University of Bucharest.



**Constantin Vaduva – Directorate Member**, has over 33 years' professional experience. Besides the capacity of member in the Directorate of Transelectrica, at present he is Secretary General of the Fiscal Consultants Chamber from Romania. He has been previously Member in the Supervisory Board of the Energy Complex Oltenia (September – November 2012) and Director General / Administrator, Chairman of the Board of Administration of SN PLAFAR SA (September 2012 – March 2013).

Mr Constantin Vaduva graduated the Academy of Economic Studies, Bucharest – Finance Accounting College (1982), and in 2007 he graduated the master degree in Public Management of the Academy of Economic Studies, Bucharest – Management College.

**Mircea – Toma MODRAN - Directorate Member** has over 29 years' managerial experience in domains such as: IT, business strategies, restructuring and efficient rendering, business continuity and risk management, development and operation of business systems.



Mr Mircea – Toma MODRAN graduated the Power Engineering College of the University from Craiova (1982 - 1987), and in 2004 he graduated the Business Administration master degree with Schulich School of Business – York University, Toronto, Canada (2000-2004)

Mr Mircea – Toma MODRAN has also attended specific courses organised at Hult Ashridge Business School – Great Britain (2007), Niagara Institute, Niagara-on-the-Lake – Ontario, Canada, Humber College – Toronto, Ontario, Canada and the Institute of Applied Language Studies – University of Edinburgh, UK. He is a certified member of the Association of Engineers Professionals of Ontario / Canada (PEO) in 2004, associate member in the Institute for Business Continuity (BCI Institute) in Reading, UK 2015, founding member of the Association of Directors of Information Technology of Romania (CIO Council) of 2006 Associate Member of the National Association of Security Services (ANSSI) from Romania in 2016.

Since June 2016, the non-executive member of the Board of Directors of Romaero S.A.

On the issuance date of this Report Transelectrica is not aware of any agreements, understandings or family ties of Directorate members and other persons.

On the issuance date of this report Transelectrica is not aware of disputes or other administrative procedures against Directorate members in relation to their activity in the

Company or regarding that person's capacity to perform his attributions in the Company.

Mr Octavian Lohan has participations in the Company's share capital procured under the Public Primary Offer (2006) and the Public Secondary Offer (2012) of share sale. No other Directorate member had participations in the Company's share capital on 31.12.2016.

#### Changes in the Directorate of Transelectrica:

- **26 May 2016** – the mandate contract of Messrs Ion SMEEANU and Catalin Lucian CHIMIREL ended by parties' agreement.
- The Supervisory Board of CNTEE Transelectrica SA appointed Mr Luca Nicolae IACOBICI as member in the Directorate of Transelectrica for non-determined term until a new Directorate member is designated according to the provisions of GEO 109/2011 on the corporate governance of public enterprises as later amended and added.
- **23 November 2016** – as of 01.01.2017 Mr Mircea Toma MODRAN was appointed Directorate member, mandate granted for the period remaining until expiry of the mandate held by the member that was replaced, namely by 16 September 2017.
- The mandate of Mr Luca Nicolae IACOBICI ended at the same time.

**Statement of responsible persons**

To the best of our knowledge the stand-alone financial-accounting statements of 31 December 2016, executed in accordance with the applicable accounting standards (International Financial Reporting Standards as approved by the European Union) provide an accurate image conform with real circumstances of assets, liabilities, financial position, profit and loss account of CNTEE Transelectrica SA, and the Directorate Report comprises accurate information true to real facts with respect to the Company's development and performance, as well as the description of the main risks and uncertainties specific to the activities performed.

Directorate



Ion - Toni TEAU	Octavian LOHAN	Constantin VADUVA	Mircea-Toma MODRAN
Executive Director General	Member of Directorate	Member of Directorate	Member of Directorate
Directorate Chairman			

## Key figures

FINANCIAL			OPERATIONAL		
2,723 mill Lei	▼9% y/y	Revenues	2.32 %	▼0.03%pp y/y	CPT
688 mill Lei	▼10% y/y	EBITDA	60.7 TWh	▼1.6% y/y	Internal output
365 mill Lei	▼19% y/y	EBIT	53.52 TWh	▲2% y/y	Billed energy <sup>1</sup>
286 mill Lei	▼21% y/y	Net income	5.05 TWh	▼25% y/y	Net export
1.881 <sup>1</sup> Lei	▼29% y/y	Dividend	55.6 TWh	▼1.2% y/y	Net consumption
HUMAN RESOURCES			TEL SHARE		
2,180	Average number of employees		2,140 mil lei	▲0,1% y/y	Capitalisation
			3.7 lei	▼24,5% y/y	Profit per share
			7.8	▲33,9% y/y	PER
			6.4 %	▼29,1% y/y	Dividend yield

<sup>1</sup> The gross dividend per share proposed for approval in the Shareholders' General Assembly from 27.04.2017

# Important events

<p><b>Jan</b></p>	<p>Transelectrica complies with the new Corporative Governance requirements from the Bucharest Stock Exchange and transmits it the Statement of compliance with the Corporative Governance Code of BVB.</p>	<p><b>Feb</b></p>		<p><b>Mar</b></p>	<p>Providing for public debate the RET Development Plan in 2016 – 2025, document containing the planned development of the RET taking into account the current stage and future development of electricity consumption and of sources, including electricity imports and exports.</p>
<p><b>Apr</b></p>	<p>The international credit rating agency Moody's Investors Service upgraded one notch Transelectrica's credit rating to Ba1 (formerly Ba2), the outlook being maintained stable</p>	<p><b>May</b></p>	<p>Ending by parties' agreement the mandate contracts of Messrs Ion SMEEIANU and Catalin Lucian CHIMIREL. - Mr Luca-Nicolae IACOBICI was appointed Directorate member by the SB for determined period until the new Directorate member is designated according to GEO 109/2011 on the corporative governance of public enterprises, with later amendments and additions.</p>	<p><b>Jun</b></p>	<p>On 1 June an incident occurred that impacted the electricity supply of Valcea county and partially Arges. This was a zone incident and the broken consumption was 458.7 MW of the total SEN consumption of 6774 MW, registered at 15:58 h, incident occurrence time.</p>
<p><b>Jul</b></p>	<p>The 400 kV overhead line (OHL) Iernut – Gadalin was re-energised after repairing the line sector between towers 2 and 7 by provisional solution using intervention towers. The line was impacted by the extreme meteorological phenomena occurred on 19 June 2016.</p>	<p><b>Aug</b></p>	<p>ANRE approved the RET Development plan for 10 years (2016 – 2025). Notification about changes occurred in the structure of TEL shareholders – according to the notification received on 01.08.2016, the holding of the Financial Investment Society Oltenia SA in the Company's share capital dropped below 5%</p>	<p><b>Sep</b></p>	
<p><b>Oct</b></p>	<p>The new organisational chart of the National Power Grid Company Transelectrica SA is approved and 01.11.2016 is set as effective date. - CNTEE Transelectrica SA participated to Session IX a of the joint inter-governmental Commission of economic cooperation between the Republic of Moldova and Romania.</p>	<p><b>Nov</b></p>	<p>Beginning with 01.12.2016 Mr MODRAN Mircea-Toma was appointed member in the Directorate of the National Power Grid Company Transelectrica SA, a mandate granted for the time interval until expiry of the replaced member's mandate, namely 16 September 2017. Mr Luca-Nicolae IACOBICI's mandate ended at the same time.</p>	<p><b>Dec</b></p>	<p>On 19.12.2016, the SEN has recorded record level of consumption and production electricity from 2001 until the present. The maximum hourly average values of the gross consumption and production were 9,575 MW ,respectively 11,101 MW. The maximum instantaneous gross consumption and production were 9,771 MW, respectively 11,242 MW.</p>



**Transelectrica®**

**Societate Administrată în Sistem Dualist**

# **Management Report**

# 1. Business model

## 1.1. Position on the electricity market

Transelectrica was established as Romanian legal person under GD 627/13 July 2000 on the reorganisation of the National Electricity Company CONEL SA, published in Romania's Official Gazette 357/31.07.2000. This decision was issued in accordance with GD 138/2000 on the restructuring plan of the energy domain, which fully separated electricity transmission and dispatch from electricity generation, distribution and supply activities.

Upon establishment the Company had share capital of 4,959,822,000 thousand former Lei, fully paid on setting date and divided into 49,598,220 nominative shares amounting to 100,000 former Lei.

In accordance with the Electricity and Natural Gas Law 123/2012, with later amendments and additions, electricity transmission constitutes public service of national interest. Electricity transmission is performed by transmission and system operators, legal persons certified by the competent authority according to legal provisions. The Electricity Transmission Grid (RET) existent on Romanian territory, is the public property of the Romanian State as regards the assets assigned to Transelectrica and they constitute

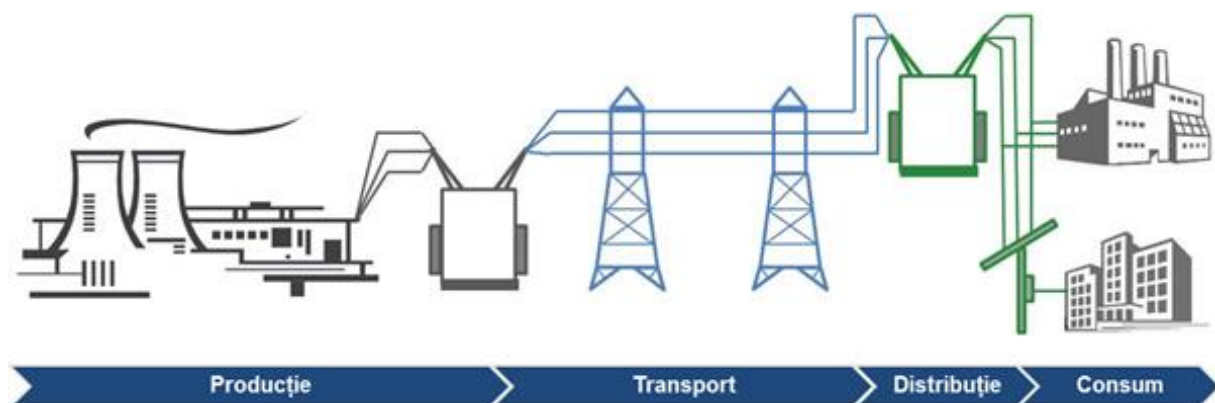
returnable goods, according to the assignment nature and legal provisions.

In its capacity of transmission and system operator Transelectrica operates according to Licence 161/2000 to provide electricity transmission services, system services and to administrate the balancing market, amended by Order 105/2014 of ANRE and Decision 270/2015 of ANRE.

The concession over the RET and the lands it was located on was granted for 49 years under concession contract 1/29.06.2004, concluded between the Ministry of Economy and Commerce in its capacity of conceding authority and CNTEE Transelectrica SA, in the capacity of concessionaire.

In the value chain of electricity activities Transelectrica has the central place of transmission and system operator, which are natural monopoly activities situated between producers and suppliers – the main players of the competitive electricity markets. Electricity transmission is not the only natural monopoly in the electricity value chain, the distribution activity as network operation is also natural monopoly.

Figure 2: Value chain of electricity



Transelectrica has got the mission to provide public service of electricity transmission while maintaining the safe operation of the national

power system under non-discriminating access conditions for all users; by developing the electricity transmission infrastructure it



becomes active participant to the sustainable development of the national power system and facilitates the operation and integration of energy markets.

The key role of Transelectrica is of transmission and system operator (TSO), to which it adds positions of balancing market administrator, metering operator as well as operator allocating the capacities of interconnection lines.

Basic activities relate to infrastructures of strategic importance in the electricity sector, which include multiple elements of critical infrastructure. Thus transmission services have the electricity transmission network as support and dispatch activities use the dispatch and metering infrastructure for support.

The activities of Transelectrica are regulated under primary legislation (the national framework being Law 123/ 2012 with later amendments and additions, while the European one - Directive EC/72/2009 and Regulation 714/ 2009) and the secondary legislation issued by ANRE - substantiated by licences, establishment permits, tariff-setting methodologies (ceiling type for transmission and cost plus for system operation, tariffs, framework contracts, procedures and others).

Business profitability comes from the pay off of the regulated asset base, which depends on the regulated rate of return and the regulated asset base ("RAB").

The business model corresponds to the standard profile of a TSO, model designed uniformly at European level under the

European strategy and legislation, applied in all community countries and transposed as such in the national legal framework.

TSO type companies are subject to certification as transmission and system operators all over Europe. The certification procedure can be mainly implemented in accordance with three possible models: ownership unbundling - OU, independent system operator - ISO, namely independent transmission operator - ITO.

At present based on Order 164/07.12.2015 of ANRE, published in MO 908/08.12.2015, Transelectrica has been finally certified as transmission and system operator of the national power system and it operates in accordance with the ownership unbundling model.

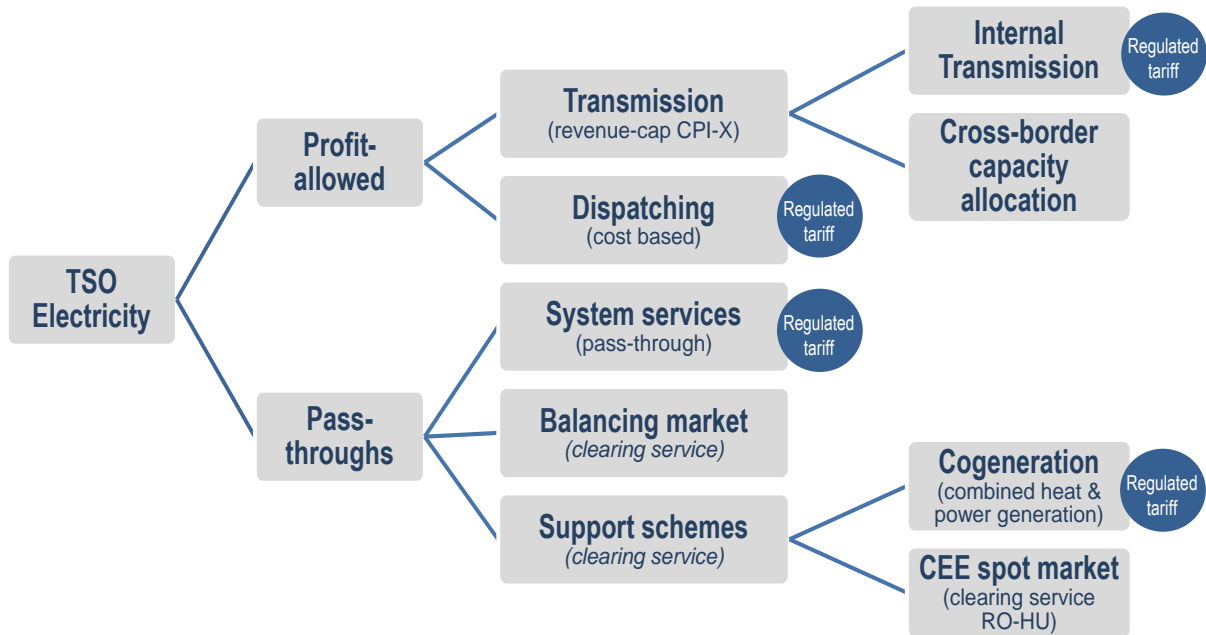
The notification with respect to such certification was transmitted to the European Union that published it in the EU Journal on 08.01.2016, in accordance with Article 10 par (2) from Directive 2009/72/EC.

In accordance with the certification conditions as transmission and system operator according to the ownership unbundling model, Company shareholders representing at least 5% of the Company's share capital will exercise their rights ensuing from Company shares while observing the provisions of Law 123/2012 regarding the non-exercise simultaneously, directly or indirectly, of control or right over an economic operator that performs any of the generation or supply activities.

## 1.2. Portfolio of activities and tariff-setting model

Transelectrica’s portfolio includes profit allowed activities (transmission services plus functional system services) and zero profit activities (technological system services, balancing activities, support schemes), all activities being regulated by ANRE.

Figure 3: Portfolio of activities



The activities provided in the graph above in the zero profit category are designed using neutral bases against the Company profit, according to the applicable regulatory framework.

Revenues associated to technological system services are estimated using the respective tariff with a view to fully cover the costs associated to activities. Similarly the cash flows associated to the support scheme administration to promote high efficiency cogeneration rely on the contribution set by

ANRE estimated in order to fully cover the costs associated to the support scheme administration.

In case annual non-null positive or negative results are reported from activities of technological system services, determined by differences between the forecasted values used for tariff calculation and actual values, the neutrality of such activity against the company profit is re-established within a multi-annual horizon by means of proper adjustments included in the tariffs.

**Profit allowed activities**

Transmission

**Domestic transmission**

- Activity regulated by ANRE;
- Tariff reviewed and updated each year;
- Tariff associated to transmission activities is determined using settings pre-set for multi-annual periods (usually 5 years) according to a revenue cap incentive model;
- The revenue cap model enables recovering operational and investment costs as well as getting the financial return dedicated to the proper remuneration of financiers, in accordance with the general risk of regulated activities performed by Tranelectrica;
- Certain cost components included in the tariff calculation are capped at levels preset by ANRE (according to some operational efficiency requirements), the superior efficiencies obtained by Tranelectrica being partially retained by the Company using a distribution mechanism of additional profit with the users of transmission services.

**Management of interconnections**

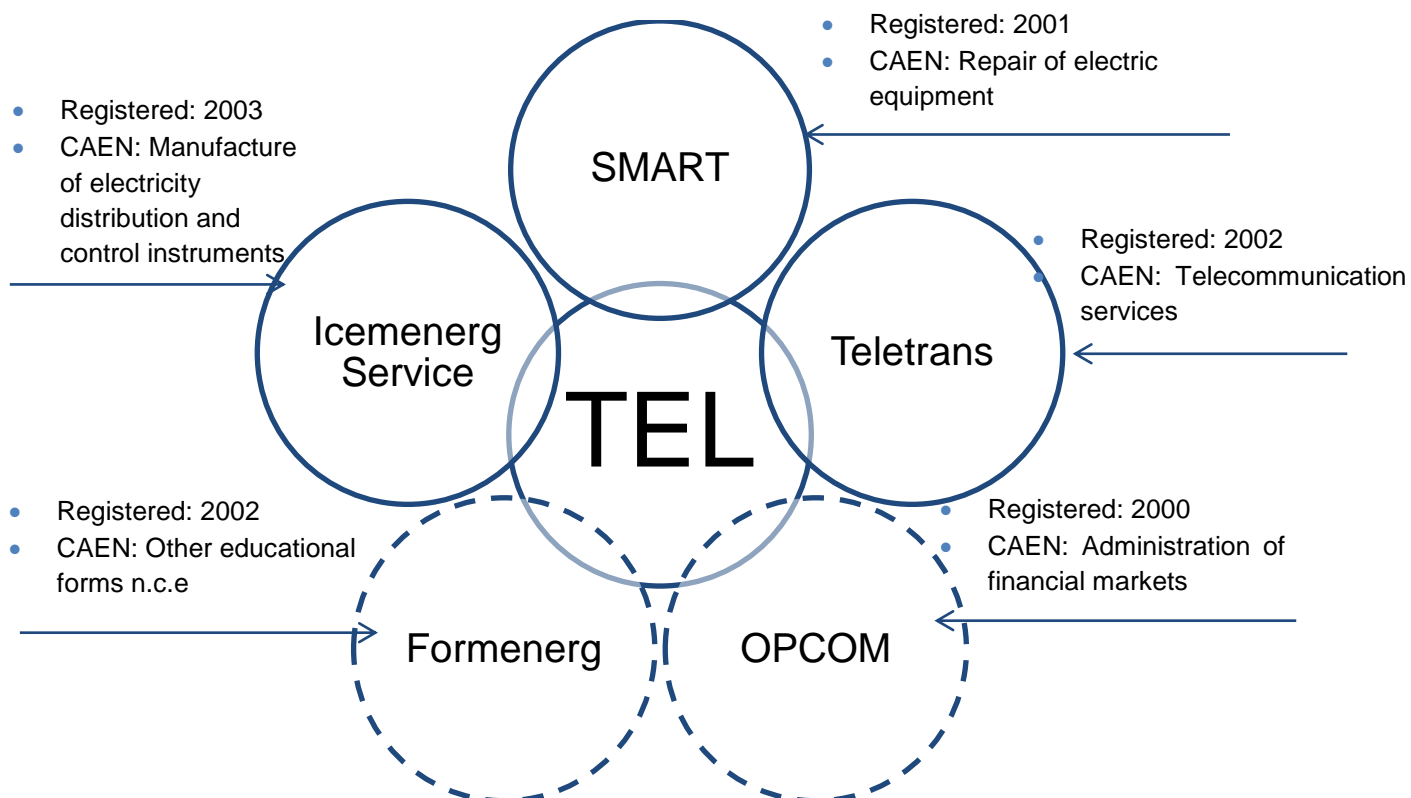
- This is an activity allocating the capacities available for cross-border electricity transfer along interconnection lines with the power systems of neighbouring countries;
- The allocation mechanism relies on a competitive system using the price offered by the participants on the energy market for the available cross-border transmission capacity, applicable in cases when the capacity demand exceeds the available level offered on the market.

Functional system services

- Activity regulated by ANRE;
- Dispatch operations of the SEN in order to maintain the safe operational level of the system (the system is maintained under stable output-consumption balance, while also keeping system parameters within preset margins that should provide safe steady-state operation of the SEN, operational scheduling to cover consumption) using the technical operational management infrastructure of the SEN, which is the EMS – SCADA system as well as the telecommunication, remote control, protection and control systems;
- The tariff for functional system services is set annually beforehand by ANRE, using a cost-plus model that allows recovering operational and investment costs, as well as obtaining a financial return dedicated to proper remuneration of financiers in accordance with the general risk of regulated activities performed by Tranelectrica.

Zero profit activities	
<b>Technologic system services</b>	<ul style="list-style-type: none"> <li>• Activity regulated by ANRE;</li> <li>• Planning and procurement of power reserves necessary for permanent provision of the output / consumption balance with a view to the safe operation of the SEN, from producers or consumers that can be disconnected;</li> <li>• Tariff of technological system services is annually set beforehand by ANRE using a zero-profit model ("pass-through") designed to fully recover the costs as necessary to procure system reserves, with possible keeping of a part of possible savings obtained when procuring power reserves under competitive terms.</li> </ul>
<b>Balancing market</b>	<ul style="list-style-type: none"> <li>• Market administration activity by which the generation and the consumption are balanced in real time;</li> <li>• Procurement of control power from dispatchable generating units and full recovery of balancing costs from balancing responsible parties;</li> <li>• There is zero-profit recovery of costs.</li> <li>•</li> </ul>
<b>Other activities</b>	<p><b>Cogeneration</b></p> <ul style="list-style-type: none"> <li>• Administration of the support scheme to promote high efficient cogeneration. The objective of such support scheme is the promotion of electricity generation systems under high efficiency cogeneration providing the benefit of energy produced with low pollutant emissions;</li> <li>• The role of Transelectrica under the support scheme is to collect the contribution from the suppliers of electricity consumers and to pay the bonus to the qualified producers of electricity and heat under cogeneration;</li> <li>• Costs are recovered on zero-profit base except for the administration costs recognised by ANRE.</li> </ul> <p><b>Transfer agent of the Romania-Hungary connection in the regional electricity market</b></p> <ul style="list-style-type: none"> <li>• Compensation-settlement activity (transfer agent role) on the regional electricity market (price coupled market in the central-east European area, including the markets from: Czech, Slovakia, Hungary, Romania) in the day ahead transaction horizon (day ahead market). Transelectrica carries out financial clearing function on the Hungarian border, an important part in the settlement chain of energy transacted on the wholesale market between Romania and Hungary (export and import).</li> </ul>

## 2. Group structure



On the date of this report Transelectrica has four subsidiaries in its structure, Romanian legal persons, organised as joint stock companies where it is the sole shareholder, namely: OPCOM<sup>2</sup>, Formenerg, Teletrans, and Icemenerg Service.

In the case of Smart, following increase of its share capital on 23.12.2014 by the Board of Administration of Smart with the value of lands which ownership certificates were obtained for previously, the Company became majority shareholder of 70% of the subsidiary's share capital.

Only companies Smart and Teletrans from among Company subsidiaries were included in the financial consolidation of the Group. Formenerg and Icemenerg-Service have not been taken into calculation upon consolidation since, according to applicable accounting legislation, the impact of their activities is considered insignificant for consolidation, while OPCOM complies with ANRE rules and has independent position on the energy market, consequently Transelectrica has no control over it.

In 2016 Subsidiaries participating to the consolidation area (Smart and Teletrans) began procedures with a view to implement the corporate governance principles, in accordance with the regulations of GEO 109/2011 on the corporate governance of public institutions. Thus the hired managers will be made responsible and remunerated according to the administration and management plans (which should include optimum administration / management

<sup>2</sup> According to GEO 86/ 2014 the Ministry of Economy, Trade and Tourism is mandated to initiate and approve all operations and steps necessary in order to transfer the shares held by the National Power Grid Company Transelectrica SA in the Company Electricity and Natural Gas Market Operator OPCOM SA in the Company Training Power Engineers of Romania FORMENERG SA to the state private property and the administration of the Ministry of Economy, Trade and Tourism, while observing the applicable legal provisions.

structures) as provided in GEO 109/2011. By implementing the corporative governance principles intentions are to make efficient the activities of the two Subsidiaries and the Company took steps to carry out the objectives assumed under the Company's Administration plan.

## SMART



The main business of Subsidiary SC SMART SA means reviews and repairs of energised instrumentation and equipment, transformers and auto-transformers; remedy of incidents in electric installations and micro-production of electric equipment. The Company has 8 subsidiaries with no legal personality, situated in the same locations as Transelectrica's branches.

- On 31 December 2016 the share capital of 55,036 thousand Lei, of which 38,528 thousand Lei fully subscribed and paid by Transelectrica. The results of SMART are consolidated with the Company's financial results.
- According to letter 165/13.01.2015 (registered in Transelectrica under no. 1552/14.01.2015) transmitted by the subsidiary, beginning with 30.12.2014 when the capital had been increased by contribution in kind with the value of lands which ownership certificates were obtained for provided the following shareholder structure:
  - CNTEE Transelectrica SA – 70.005% - 3,852,860 shares
  - The Romanian State through Ministry of Economy, Trade and Business Environment Relationship – 29.994% - 1,650,770 shares.

## TELETRANS



SC Teletrans SA was established under decision 13/04.12.2002 of AGA of Transelectrica, based on Law 31/1990 and Orders 3098 and 3101 of 23.10.2002 from the Ministry of Industry and Trade.

- TELETRANS shares are 100% held by Transelectrica.
- In accordance with the By-laws and applicable norms Teletrans provides telecommunication services under certificate 29056 issued by the National Administration and Regulatory Authority in Communications ("ANCOM") on 27.09.2010, observing the regulations of this public institution as per legal provisions (GEO 79/ 2002).
- The share capital on 31.12.2016 was 6,874 thousand Lei, Transelectrica being sole shareholder. The results of Teletrans are consolidated with the Company's financial ones.

## FORMENERG



Subsidiary SC FORMENERG SA is a company whose main business is training the personnel from the energy sector, Distrigaz Sud Retele, Distrigaz Confort, Cez Distribution, Omv Petrom, FDEE Electrica Distributie Transilvania Sud being among its clients. The Company provides a wide range of short term courses (a week or two) in domains such as- public procurement, human resources, finance-accounting, marketing and communication, operation, maintenance, energy strategy, natural gas, IT, legislation, licensing of electricians etc.

The share capital is 1,948 thousand Lei, fully paid, represented by 194,842 shares of 10 Lei nominal value each.

## ICEMENERG – SERVICE

Subsidiary Icemenerg Service SA focussed on the design, manufacture and distribution of metering, running and control apparatus meant for the power system, having got ISO 9001 and IQ NET certification from SRAC ROMANIA, ANRE licensed.

- Share capital is 493 thousand Lei, fully paid on 22.08.2013, represented by 49,300 shares of 10 Lei nominal value each.
- By Order 855/10.12.2004 of the Minister of Economy and Commerce (on instituting the special administration procedure and

financial supervision) beginning with 23.12.2004 the special administration and financial supervision procedure was instituted in SC ICEMENERG – SERVICE SA during the privatisation period of subsidiary ICEMENERG – SERVICE SA, subsidiary company of Transelectrica, with a view to determine the manner of administration and management as well as the measures that have to be taken in order to expedite the company's privatisation process.

### OPCOM



OPCOM was established under GD 627/2000 on the reorganisation of the National Electricity Company SA as

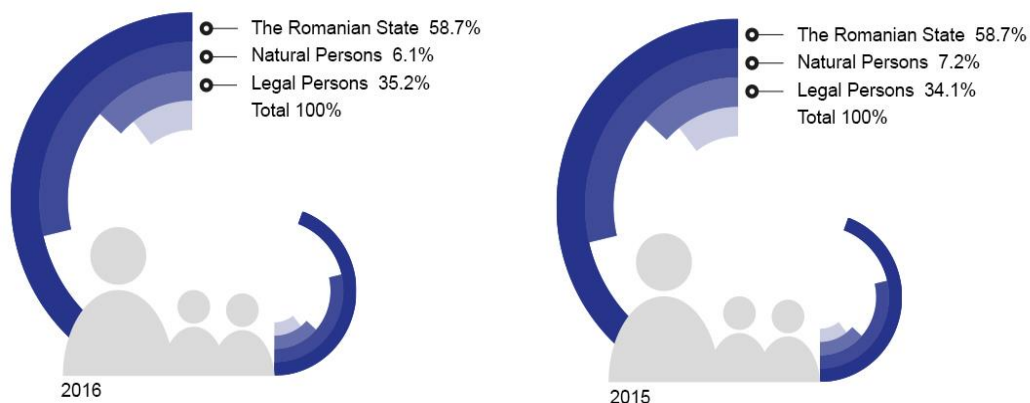
subsidiary whose sole shareholder is Transelectrica.

- On 31 December 2016 the share capital was 8,100 thousand Lei, fully subscribed and paid.
- The main activities of OPCOM are: organising, administrating and supervising the centralised electricity markets as well as supervision of the centralised market from the natural gas sector.
- Transelectrica does not exercise actual direct control over the decision making mechanisms of OPCOM, whose administration is performed according to ANRE regulations.

### 3. Transelectrica on the capital market

#### 3.1. Shareholding structure

Figure 4: Development of shareholders structure in 2016



#### 3.2. Share price evolution

2016 has been an important year for Romania's capital market. On 29 September 2016 the decision of FTSE Russell was published, according to which Romania was included in the list of countries with substantial potential to pass from the "emergent market" condition to that of "frontier country" it now has. The decision was taken after the modifications and changes made both in the capital market legislation and also in the regulations regulating this market, adding the conjugated efforts made by NBR, BSE, ASF, PFM and the Central Depository. To this effect investors' interest is expected to grow, as they usually avoided this market in favour of others.

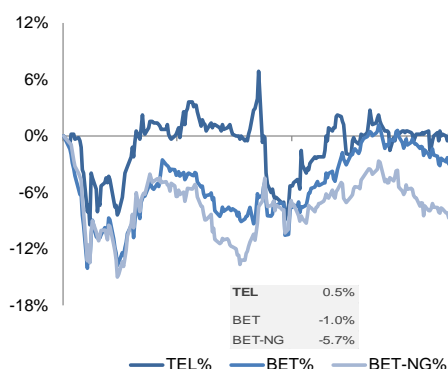
Along 2016 Transelectrica share (TEL symbol) provided quite stable evolution, with little number of significant price fluctuations ranging

from 26.4 Lei/share to 31.15 Lei – maximum reached on 3 June 2016. Compared to the overall stock market performance (BET index), and also to the companies constituting the BET-NG index, TEL shares showed superior performance in the first part of the year, while the year end showed such differences damped, at least to BET but also to BET-NG, which performed under TEL.

Transelectrica is included in the local stock indices (BET, BET-XT, BET-NG, BET Plus, BET-TR, BET- BK, ROTX) and in the international DowJones Wilshire Global Indexes (Dow Jones Wilshire Global Total Market Index SM, Dow Jones Wilshire Romania Index SM, Dow Jones Wilshire Electricity Index SM).

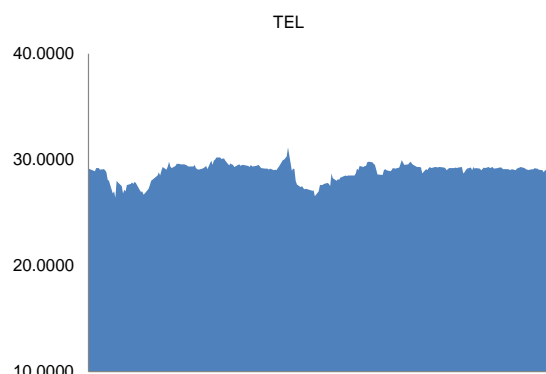


Figure 5: Share price development to BET and BET-NG indices in 2016



The total shareholders' return (TSR) was 6.6%, Transelectrica share being one of the most appreciated by the investors transacting with the Bucharest Stock Exchange. It is worth

Figure 6: Share price development in 2016



mentioning in 2016 the Ministry of Public Finance launched for the population state titles with two years maturity, at 2.15% interest per year.

Table 1: Stock-exchange information 2014-2016

Indicator	31.12.2016	31.12.2015	31.12.2014
Number of shares	73,303,142	73,303,142	73,303,142
Stock exchange capitalisation (mill Lei)	2,140	2,137	2,146
Stock exchange capitalisation (mill Euro)	471	472	479
Maximum price (Lei/share)	31.15	32.47	29.97
Minimum price (Lei/share)	26.40	25.19	14.84
Price at year beginning (Lei/share)	29.15	29.27	15.78
Price at year end (Lei/share)	29.20	29.15	29.27
Profit per share (Lei/share)	3.72	4.91	4.88
PER	7.84	5.93	6.00
P/BV	0.69	0.71	0.76
Dividend per share (Lei)	1.8810	2.6500	2.8033
Dividend yield* %	6.44	9.09	9.58
Free Float %	41.31	41.31	41.31

\* Dividend yield proposed for approval in the Shareholders' General Assembly was calculated using the last share price of 31 December each year.

Share ID data: ISIN **ROTSSELACNOR9**; Bloomberg **TEL RO**, Reuters **ROTEL.BX**

### 3.3. Bonds

In 2016 the third interest coupon was paid associated to the inaugural bond emission of 2013, the first major financing transaction on the capital market using credit instruments (emission of unsecured bonds amounting to 200 mill Lei with fixed interest, five years' maturity).

Introducing bonds in the financing mix had beneficial effects in the mid- and long-terms, diversifying the financing options and thus

reducing the credit restriction risk along traditional lines (for instance by reaching the maximum credit allocations, in case of relation banks).

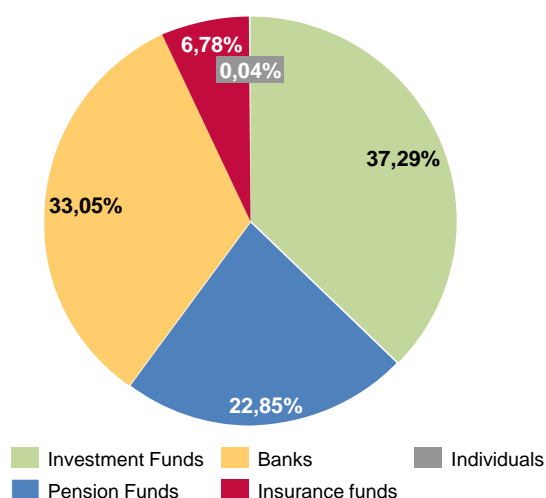
Beginning with 16.01.2014 corporative TEL bonds have been transacted on the Bucharest Stock Exchange (BVB), Credit Titles – 3rd category - Corporative bonds, symbol TEL18.

Table 2: Main characteristics of the bonds issued by Transelectrica

Symbol:	TEL18
Type:	nominative, dematerialised unsecured bonds
Number of bonds:	20,000
Nominal value:	10,000 Lei
Total value:	200,000,000 Lei
Interest rate:	6.1%
Interest payment:	Annual
Interest payment dates:	19.12.2014; 21.12.2015; 19.12.2016; 19.12.2017; 19.12.2018
Maturity date:	19.12.2018

The structure of corporate bond holders on 07.12.2016, reference coupon payment date was as follows:

Figure 7: Structure of corporate bond holders on 31.12.2016



In the third accumulation year the interest associated to the bonds was paid in accordance with the Offer Prospectus and was made to the Romanian Commercial Bank, in its capacity of payment agent, on 19 December 2016 to the holders of Transelectrica bonds registered on the reference date 05.12.2016 in the Register of corporate bond holders recorded with the Central Depository S.A.

### 3.4. Dividends

On 28.03.2016 was approved, by Shareholders' General Assembly, the Company's Policy on the distribution of dividends.

Company accounting profit is distributed after deducing the income tax in accordance with

GEO 64/ 2001 on profit distribution in national companies, national and trading companies with full or majority state capital.

The table below provides the distribution of the Company's 2014 - 2016:

Tabel 3: Profit distribution

Indicator		2016	2015	2014
Net profit	mill Lei	272	360	358
Distributed dividend	mill Lei	138	194	206
Gross distribution rate*	%	75	75	75
Actual distribution rate**	%	50.8	54.0	57.5
Gross dividend per share	Lei	1.8810	2.6500	2.8033

\* The gross distribution rate was approved in the Shareholders' General Assembly from March 28, 2016

\*\* The actual distribution rate takes into account the sums allocated to legal and other reserves, as well as fiscal facilities.

The payment of the dividends corresponding to the net profit of the previous financial year shall be performed only after the Shareholders' General Assembly approves the annual financial statements

The payment of the dividends towards shareholders is performed to the net tax value, according to the provisions of the Romanian Tax Code.

The tax is withheld, declared and paid to the State budget by the Company.

Transelectrica interrupted the payment of the due and unclaimed dividends corresponding to the financial year 2013, as a result of the 3-years prescription deadline.

### 3.5. Rating

On 20 April 2016 Moody's Investors Service published the updated credit opinion by which it assessed Transelectrica's current and future capacity to carry out its obligations to creditors.

The current credit opinion changes the credit rating of Transelectrica to a higher level compared to last year's, the outlook being maintained stable.

The Company rating remains just one notch below Romania's (two notches, previously), acknowledging the Company's improved financial performance and sound operational results, thus providing premises for future financing under optimum cost conditions of investments assumed in the third regulatory period.

This rating continues the improved rating outlook (to stable from negative, Ba2), notified by Moody's in 2014, the determining factor being the process initiated in order to optimise the financing structure by introducing Lei bonds in the financing mix. Such inaugural emission achieved both extended maturity of resources and diminished currency risk.

Thus the two acts of the Agency in 2014-2016 mirror its positive appreciation for the gradual improvement of Transelectrica's financial performance.

Tabel 4: Transelectrica Rating

	2016	2015	2014
Moody's Investors Service	Ba1 stable	Ba2 stable	Ba2 stable

### 3.6. Investor relations

In the implementation context of corporate governance rules and best practice, Transelectrica has committed to active communication with shareholders and investors, using in this respect several communication channels and dedicated interfaces. The Company is aware of its important responsibility in the position of publicly transacted company.

The diversity of shareholders and presence in main indexes published by BVB emphasise exigencies like transparency, information relevance and its quick dissemination, as well as maintaining uninterrupted dialogue with the investor public.

Thus shareholders and investors can get relevant information for their investment decisions by accessing the dedicated section from Transelectrica's internet page (financial statements, periodical reports and presentations), by written electronic correspondence and phone calls by dedicated contacts.

The Company also keeps in touch with investors by direct meetings organised periodically by the company to submit its results, direct meetings

upon request from investors or their brokers and similar direct meetings when the company participates to events dedicated to individual or institutional investors, organised by the Bucharest Stock Exchange or by the financial investment service companies.

According to the financial calendar published by the Company at the beginning of the year, Transelectrica organises quarterly meetings with the shareholders, investors, financial analysts and journalists.

In 2016 Transelectrica participated to conferences dedicated to individual investors, events dedicated to institutional investors and direct meetings set up upon request of certain investors and/or brokers, in total Transelectrica attended 6 international conferences and participated to 62 direct meetings with investors.

Transelectrica share is monitored by the research departments of the main financial investment service companies active on the regulated market managed by the Bucharest Stock Exchange. The Company is always in touch with the analysts of companies that have included Transelectrica in their research portfolio.

## 4. Risk management

### 4.1. Policy regarding risk management

The Integrated Risk Management System was implemented in the Company as provided in the strategic requirements for the safe uninterrupted operation of the SEN, which is fundamental condition for sound internal managerial control. The Company addresses risk management in proactive manner, thus the Directorate make sure to reasonable extent that objectives will be achieved by managing possible threats. To this effect potential losses are detected and treated before occurrence of events of likely negative impact, preparing beforehand the specific technical, operational and financial solutions in order to mitigate or counteract possible losses.

The Company's risk management observes the applicable legal and regulatory requirements to provide risk control capacities according to the risk profile of the Company, with a view to detect, assess, manage, monitor, notify, consult and report risks:

- Order 400/2015 of the Secretariat General of the Government (OSGG) added by OSGG 200/2016 and OSGG 530/2016 approving the *Code of internal /managerial control of public entities*
- The regulator's requirements and others derived from its capacity of Company listed on the Bucharest Stock Exchange or asked for by rating agencies or auditors

The set of risk management solutions used by Transelectrica aims at assisting the organisation in reaching objectives and contributing to improved planning by means of risk mitigation measures, comprising in an optimised structure the organisational and the financial solutions. Thus in organisational terms risks are kept under control at acceptable level with reasonable costs, mitigated or even transferred, by means of activities such as:

- Organising, designing, planning, structuring activities, communication including business continuity measures after occurrence of a risk. Procedures have been also executed with principles to be complied with by all employees and labour security and safety

measures have been enhanced with a view to mitigate risks;

- Insurance contracts aiming at risk transfer; bank letters of indemnity, financial securities asked from Transelectrica's counterparts; financial solutions including share offers, bond emissions and other instruments provided on the capital, insurance and other financial markets.

As part of Risk Management activities in 2016 there were the following achievements:

- Setting up the Monitoring Commission in order to implement the Internal / Managerial Control System and the Team managing risks Company-wide;
- The organisational and procedural framework was provided by the heads of organisational units in order to apply the internal control and risk monitoring measures;

In 2016 the *Risk Register 2017* was completed and approved by the Directorate, aiming at minimising the effects of risks the Company is exposed to on its performance. The Risk register was set in accordance with the requirements of Standard 8 *Risk management* from OSGG 400/2015 and OSGG 200/2016.

At the same time the Company centralised the *Action plans to limit the possible consequences of risk occurrences*, executed and approved by the Executive Divisions and Departments, as well as by the Transmission Branches.

The Monitoring commission to implement the Internal / Managerial Control System examines annually and sets the priority list of significant risks that might impact the general objectives of CNTEE Transelectrica SA. In 2017 a number of 14 significant risks were synthesised and hierarchically classified Company wide, which might impact the general objectives of Transelectrica's functioning.

The Audit Committee's agenda included the risk range the Company is exposed to. Taking into account the size and complexity of processes it is involved in the cyber threats, the complexity and

term of investment projects, the changes generated by environmental factors over the good operation of RET according to the dynamics of changes on the energy markets to contractual partners of volatile financial performance, all these provide a highly complex picture with potential risk and threat areas for the Company.

The Audit committee got actively involved in 2016 into the reevaluation of the manner in which such risks are identified and assessed for the functional domains of the Company. It has also reviewed the measures plan prepared in order to mitigate and monitor risks, and provided recommendations about the correct identification of risks, their potential technical-functional but also financial impact over the Company's results.

#### 4.2. Objectives of Transelectrica with respect to risk management

The Directorate aims at preserving the continuity of strategic functions as system operator and electricity transmitter within the SEN of Romania, even under the worst circumstances.

Both in direct mode by implementation in the branches and subsidiaries, and by transposing the applicable requirements in the service contracts with specific suppliers, the Company's policy aims at providing operation in accordance with the quality, security and efficiency norms specified in the Technical Code of RET and with any other specific applicable regulations, emphasis being laid on compliance with the employees' safety and health criteria, as well as on the protection and preservation of the property and environment.

The Company management determined the following strategic objectives in terms of risk management:

- Understanding the risks the Company is exposed to, their causes and the possible budget deviations and costs, as well as the

#### 4.3. Main risks identified

Risk management is integrant part of the Company's management and decision making processes, contributing to a higher degree of objective achievement by better planning, taking

into account the risks and by measures hedging and controlling the potential negative effects over the Company's financial performance because of the unpredictability of the economic and financial environment.

- impact they might have over general and specific objectives;
- Maintaining a safe working environment for employees;
- Operating the equipment and installations under safe conditions with no dangers for third parties or environmental impacts;
- Implementing the optimum risk control measures.

The main objectives established include:

- Improving the Company's risk profile by administrating the global risk identification, assessment and monitoring process, while implementing the control necessary in order to maintain risk exposure at acceptable level;
- Eliminating or reducing to minimum the conditions and practice that might lead to non-attained performance indicators, or to interrupting or limiting Company activities;
- Reducing the total risk cost in Transelectrica with a view to contribute to financial resources necessary for operation expenses, payment of liabilities and financing investments.

Company activities are sensitive to the general economic conditions, which might impact the quantity of transmitted electricity and implicitly operational revenues and results. Moreover, the demand for electricity and its price depend on a variety of factors over which Transelectrica has no control, namely:

- Economic and political developments at global and regional level;
- The demand of industrial consumers;
- Climatic conditions;
- ANRE regulated tariffs for transmission and system services;
- existing laws and regulations.

**4.3.1. Technical and operational risks**

The substantiation of technical risks or those resulting from incompleted existing procedures or systems, generated by the employees' behaviour or external events – including hazard, might have negative impact over Company activities, representing a hindrance in reaching the proposed results and also impacting the Company's financial situation:

- Risks relating to SEN operation;
- Installations and equipment failure / unavailability: the 220 kV and 400 kV OHL, primary equipment from electric substations, transformer units and/or bucking coils, fire prevention and fighting installations, the protection systems of electric substations;
- Malfunctions of the telecommunication systems, of monitoring, metering and operating platforms of the SEN;
- Improper execution of preventive and corrective maintenance;
- Malfunctions of the EMS/SCADA system;
- The Annual Investment Programme is achieved below planned quantitative and qualitative levels.

**4.3.2. Financial risks**

In terms of financial risk management the risks the Company is exposed to with the most significant impacts over financial results come from the financial instruments: interest rate risk, hard currency risk, credit risk and liquidity risk. Another risk that might impact the Company's performance is associated to the provisions of financing agreements. The main risks the Company can be faced with while operating are summarised further.

**4.3.3. Interest rate risk**

The Company has concluded (short and long term) credit contracts to finance investment programmes and to sustain operational activities.

The variable component of the interest rate associated to the credits drawn by the Company can influence both the cash flows from operational activities and profitability, if the values of international indexes the interest rate is calculated with are significantly modified.

During 2016 EURIBOR (6 months) registered a progressive decreasing trend from -0.04% at the end of 2015, and ended 2016 with 0.22 % negative annual interest rate.

Figure 8: Debt structure by types of interest

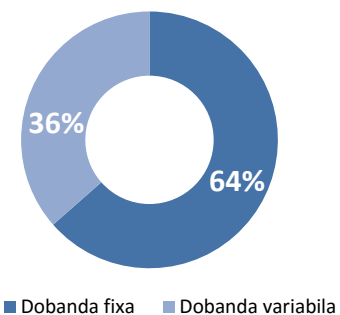
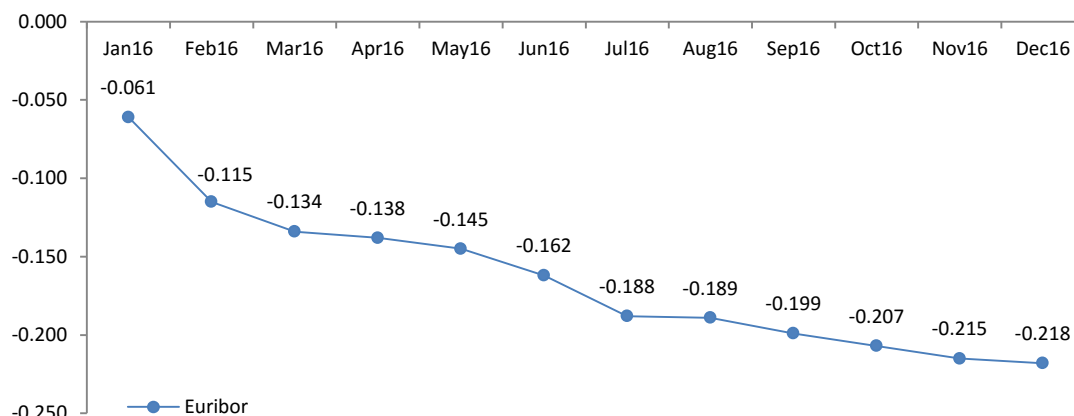


Figure 9: Development of EURIBOR 6M (%)

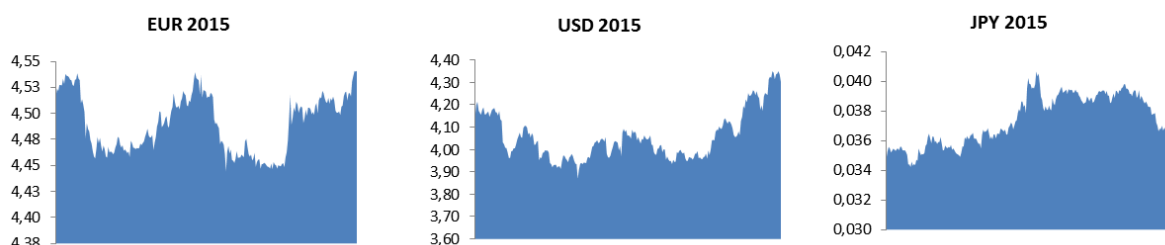


#### 4.3.4. Exchange rate risk

The functional currency of the Company is the Romanian LEU. The Company is exposed to the exchange rate fluctuations when revaluating assets and liabilities denominated in another currency, but also to modifications in the interest and principal payments as a consequence of credits contracted in other currencies.

In 2016 there were periods of higher volatility with time intervals of Lei appreciation, followed by periods of unfavourable fluctuations against the background of external events. From the beginning of the year the national currency depreciated against all currencies the Company contracted credits in: 3.75% to the USD, 6.91% to the JPY and 0.37% to the EUR.

Figure 10: Development of exchange rates



Consequently in 2016 revenues from exchange rates differences amounted to 21.2 mill Lei, while expenses amounted to 22.4 mill Lei. The general

impact of such exchange rate differences is a loss of 1.2 mill Lei.

Table 5: Total exposure in the financial position statement

mill. lei	Total	RON	EUR	USD	JPY
<b>31 December 2016</b>	640	204	425	11	0
<b>31 December 2015</b>	802	207	568	18	9

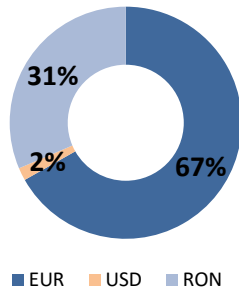
In 2016 the bank debt decreased from 802 mill Lei to 636 mill Lei against the background of Company reduced indebtedness and of principal payments under contracted credits.

Credits denominated in EUR remain further at high 67% level in the total credits, while Lei credits situate at 31%, increasing 19%



compared to last year. In 2016 the Company

Figure 11: Debt structure by types of currency



**4.3.5. Risk associated to the provisions from financing agreements**

The Company has concluded financing contracts with international financing institutions (IFI) and with commercial banks in order to finance investment projects and to sustain certain operational activities, as part of its business. Financing contracts include clauses with respect to: compliance of financial indicators, control changes in the Company, pari passu type clauses, etc.

The breach of such clauses might entail, based of preliminary notification and a reasonable amount of time, the credit payment in anticipation as certain credits include penalty clauses in case of repayment in advance. To date the Company has received no advance repayment notification for breaching the assumed obligations.

**4.3.6. Liquidity risk**

The liquidity risk is one according to which the Company might be faced with difficulties when fulfilling the obligations associated to financial liabilities settled in cash or by transfer of other financial assets. The provisions from the Company's financing agreements can limit its financial and operational flexibility.

A cautious policy managing the liquidity risk implies preserving enough liquid resources in order to cover liabilities as they reach to maturity, as well as to provide available financing by means of proper credit facilities.

contracted no more hard currency credits.

The liquidity risk is diminished since introducing the Company's financing mix of unsecured instruments (unsecured corporative bonds and loans offered by international financial institutions), which significantly reduce the dependence on the limitations and constraints of the bank environment and the need to secure commercial credits with decreasing commercial liabilities.

Another component of the liquidity risk comes from the opportunity cost of financial investments towards the liquidity excess the Company might have at a certain moment. In this respect the Company's management was permanently concerned with investing however this excess liquidity into low risks instruments, but providing satisfactory yields. The average yield obtained in 2016 corresponds to market conditions.

**4.3.7. Credit risk**

This is the risk by which the Company incurs a financial loss because of a contractual partner's incapacity or refusal (client or counterpart under a financial instrument) to carry out his contractual obligations. This risk results mainly from commercial liabilities and cash and cash equivalents.

Managing the counterpart risk results from systematic approach of Company management, against the background of external factors impacting risk reduction: decentralisation of the energy sector where generation, transmission, distribution and supply are distinct activities, and the client interface is provided by the supplier; electricity is transacted on two market segments in Romania: the regulated market and the competitive market.

The internal measures the Company applied in order to keep credit risk under control and reduce it include: diversifying the client portfolio, monitoring the clients creditworthiness, as well as insurance contractual measures.

The Company applied a set of policies whereby it makes sure the clients sell services with proper creditworthiness or their obligation to constitute financial guarantees to cover the non-payment risk is included in commercial contracts.

The risk of these receivables non-collection is relatively limited, given the structure of the clients' portfolio, the monitoring of the receivables receipt on time and other measures taken in order to increase the collecting degree, considering contractual framework and applicable ANRE regulations.

#### 4.3.8. Strategic risks associated to the regulatory framework

The tariff (price) risk associated to the regulatory framework (including the volume risk) and the risks associated to the non-implementation of network codes on time and in compliance with their provisions.

#### 4.3.9. Tariff (price) risk associated to the regulatory framework

Taking into account the position of regulated natural monopoly, the price risk associated to the regulatory framework is an important that might bear on Company activities, providing negative impact over the Company's operational results, financial position and perspectives.

The price risk has got structural component, namely the manner to determine the tariff (the capacity to recover the costs fully and quickly) and a component regarding the transparency of regulatory acts, as well as the history of tariff-setting decisions.

In 2013-2016 substantial improvement was noticed of both the recovery capacity of costs (in particular the technological consumption/losses) and the transparency of regulatory acts (the calculation mode of tariffs and the communication between Company and regulator), with visible effects in the financial performance. Nevertheless, the record of historical risk marked by unfavourable regulatory conditions and insufficient transparency in tariff-setting still maintains the regulatory risk.

The improved regulatory framework of the transmission tariff, mainly as regards costs recovery, has been the main factor in the improvement of the Company's credit rating in 2016 (upgrade from Ba2 to Ba1 according to the communiqués of Moody's rating agency). However the rating agency noticed an important

regulatory risk caused by the non-transparent decisional history in the tariff approval process.

#### 4.3.10. Volume risk

The volume risk is an important component of the regulatory risk.

The current tariff-setting system is monome (with only one billing component: energy) and thus generates a high exposure of revenues to the volume of power circulated in the network. When the cost base associated to transport activities is fixed (variable costs represent about 20% from total recognised costs, the about 80% majority component being determined by fixed infrastructure costs: investments, maintenance), the discrepancy created between the cost base structure and the mechanism generating revenues might lead to large revenue deviations from the regulated income approved by ANRE [*note the substantial excess revenue registered in the first tariff year (2014-2015) of the current regulatory period (2014-2019) produced against the background of increased power volume circulated in the network, circumstances which led to proportional negative correction (>100 million Lei representing >10% of the regulated revenue of transmission activities) and this impact in the tariff had to be damped by spreading out the correction over the 4 years remaining from the regulatory period (by derogation from the tariff-setting methodology)*]. Such deviations are corrected by means of ex-post tariff adjustments, thus a risk occurs of fluctuations in the revenue from one year to another and such disturbance is further transmitted to the profit level (as the cost base is prevalingly fixed).

ANRE has launched a project to simulate the effects of introducing the binome tariff system (which provides two billing components: energy and power). This simulation is planned for 2017-2018, while the binome tariff-setting system is to become effective in 2019. The tariff system considered for implementation provides the important benefit of correlation between the cost base (fixed vs. variable costs) and the structure of the mechanism generating revenues (fixed vs. variable revenues). The volume risk will be substantially attenuated by such implementation of the binome tariff.

Risk control / mitigation measures: sound foundation, within the limits of applicable methodology, of the demands to include in the tariff certain cost levels sufficient enough to cover costs necessary for regulatory activities; rapid response to ANRE proposals in order to amend the existing regulatory framework and examine the impact of their implementation over the Company, and proposing adjustments as required with a view to protect Company interests.

#### **4.3.11. Risk of network codes implementation**

Taking into account the novelty and complexity of the Company implementation of provisions from European Regulations on networks codes, the implementation risk provides a component relating to the failure to comply with certain set dates and another component relating to incompliant implementation of certain provisions of these network codes.

This risk can substantiate in bad reports from ENTSO-E and ACER with respect to the Company's implementation of certain provisions from network codes. Later on, depending on the seriousness of such incompliance and if proper feedback is lacking, the European Commission might initiate infringement actions, which can translate into penalties of 10% from the Company's turnover.

#### **4.3.12. Risks associated to the unpredictability of Energy Markets**

- The price risk owed to the energy market might lead to cost rises associated to CPT.
- Counterparty risk - of non-collecting liabilities (a client's incapacity or refusal to carry out his contractual obligations);
- Forecast risk - a hazard risk related to external events (sudden changes in the atmospheric conditions or in RET circumstances), thus determining CPT increase.

#### **4.3.13. Legality risks resulting from changes in the legal, political, regulatory framework, the social environment or the Company's internal policies**

- Failure to comply with legal conditions, fraud risk;

- No defence of the Company's legitimate rights and interests;
- Distorsion: non information about compliance with legality;
- Risks associated to licences, contractual risks, including fines from authorities or compensating payments;
- Disputes;
- Improper execution of user connections to electricity networks of public interest;
- Failure to comply with the regulatory or contractual terms, mainly determined by difficulties to obtain the rights over lands.

#### **4.3.14. Risks regarding security**

- Risks associated to the security and protection of critical infrastructurilor ICN/ICE;
- Deficiencies in the management of emergency situations and in the administration, application, update, testing of the Emergency response under the Business Continuity Plan;
- Risks associated to the security of classified information: improper access and movement in the Company's security areas;
- Non-operation/defect operation of the technical systems providing physical security of spaces where classified documents and information are stored and handled,
- Data destruction because of natural phenomena, incompliance with working procedures in the notified IT stations for work with classified information/documents,
- Failure to provide security to the information in electronic format,
- Information leaks.

#### **4.3.15. Risks related to the personnel**

- Deficiencies in hiring activities, the relations with the Social Partner, the administration, compensation and provisions of benefits, professional training and development;
- Impacts over the health condition and security of personnel;

- Strikes or other forms of interrupting the activities.

**4.3.16. Risks associated to environmental protection**

- Environmental pollution,
- Improper waste managemen.

## 5. Human resources

### 5.1. Structure of personnel

The personnel structure maintained constant these last years in terms of average number of employees. In accordance with its operational licence, Transelectrica does not usually hire temporary employees. The operation of electric substations of the RET and the provision of dispatch services of the SEN are performed by operational personnel organised under working hours with permanent shifts.

In 2016 78 people were hired that replaced the personnel leaving the Company by joint parties' agreement and retirement.

Table 6: Average number of employees with individual labour contract for non-determined term

Year / indicator	2016	2015	2014
Average number of employees	2,180	2,180	2,180

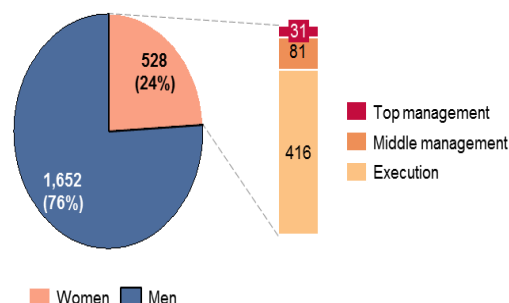
The number of employees with university studies is increasing compared to previous periods (+3% compared to 2015, +5% to 2014 and +6% to 2013). This current year the share of personnel with academic education is 60% of the total number of employees, and 40% are personnel with medium level education, in general of electric power profile.

Table 7: Structure of personnel by education degree

Education level	2016	2015	2014
Superior	1,317	1,283	1,257
Medium	863	893	919
Elementary	0	4	4
<b>TOTAL</b>	<b>2,180</b>	<b>2,180</b>	<b>2,180</b>

Examining the employees structure by gender one can find three quarters of the total number are men. Out of the 528 women that worked in Transelectrica on 31.12.2016, 31 have positions of top management and 81 are middle management, together covering 21% of the feminine gender personnel.

Figura 11: Structure of personnel by gender



The personnel aged over 40 further represent more than half of total employees, the registered share being 54% in 2014 and 56% in 2015 and 2016.

# 47

## Medium age in 2016

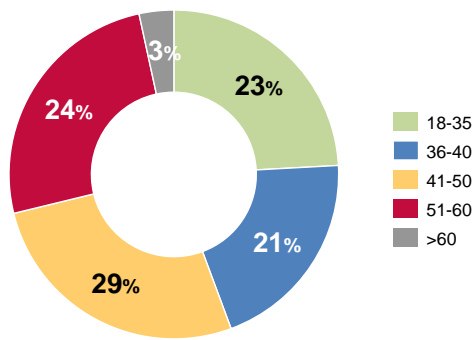
During the same period the percentage of employees aged 18 ÷ 35 dropped 5% compared to last year and 13% compared to 2014.

Table 8: Structure of employees by age categories

Age [y]	2016	2015	2014
18-35	502	526	575
36-40	468	441	437
41-50	624	585	551
51-60	518	554	548
>60	68	74	69
<b>TOTAL</b>	<b>2,180</b>	<b>2,180</b>	<b>2,180</b>

Taking into calculation the retirement age of current employees, 42 retired in 2016 and 260 will retire in 2017 – 2020.

Figure 12: Structure of personnel by age

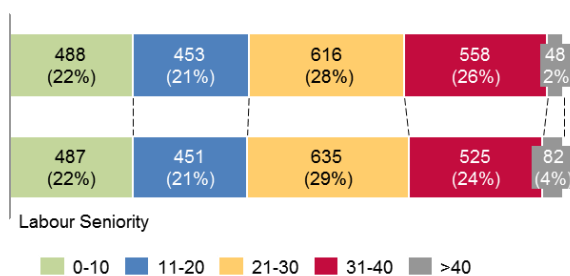


Taking into consideration the activities performed by the Company, those of strategic interest, most of the employees have got 21 ÷ 40 years seniority, being experienced employees that bring value to Transelectrica’s entities.

Table 9: Structure of employees by work seniority

Work seniority [y]	2016	2015	2014
0-10	487	484	499
11-20	451	446	453
21-30	635	639	631
31-40	525	524	514
>40	82	87	83
<b>TOTAL</b>	<b>2,180</b>	<b>2,180</b>	<b>2,180</b>

Figure 13: Number of employees depending on seniority groups in 2016



As far as Company activities are concerned, more than half of the employees have got over 20 years’ seniority, and those with over 30 years cover 29%.

Table 10: Structure of employees according to their seniority in the Company

Seniority in Transelectrica [y]	2016	2015	2014
0-10	488	472	487
11-20	453	453	468
21-30	616	616	619
31-40	558	563	535
>40	65	76	71
<b>TOTAL</b>	<b>2.180</b>	<b>2.180</b>	<b>2.180</b>

Table 11: Structure of personnel by categories

Categories of personnel	Number of employees
<b>Operative and operational personnel (standardised activity), of whom:</b>	<b>1,747</b>
DEN	186
Operational personnel of transformer substations, remote control and operational centres	990
Admission-reception personnel	114
OMEPA personnel directly involved in productive activities – operational centres, solving non-conformities, tele-metering system, relations with market participants	40
Personnel directly involved in organising and monitoring the operations of substations	417
<b>Personnel for support activities and executive management</b>	<b>433</b>
<b>TOTAL</b>	<b>2,180</b>

The operative and operational domain has the greatest share within personnel categories, namely 80%. The greatest concentration of these is provided by operational employees, with 57%. In comparison with last year the number of personnel for support activities and executive management dropped 2%.

## 5.2. Professional training

Professional training activities carried out in 2016 focussed mainly on achieving the "Annual professional upkeep, training and improvement programme of Company employees", a complex one conducted following wide scale process to detect and prioritise the need for Company personnel training.

The major objective of this programme was to maintain and develop new competencies in Company personnel, while acquiring the abilities necessary to improve the labour quality and productivity.

The table below provides the costs associated to the participation at training courses with external training providers and their number.

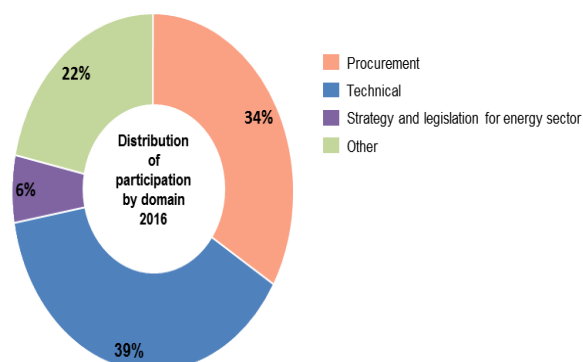
Tabel 12: External professional training courses and expenses with the trainer

Indicator / Year	2016	2015	2014	2013
Number of participants	162	651	800	809
Number of attendances	166	988	878	1.114
Expenses (mill Lei)	0.89	0.68	0.67	0.66

Particular attention was paid to training programmes dedicated to operative and operational personnel, and the organised activities aimed at permanent training and improvement in domains that require uninterrupted adaptation to economic and technical changes, improved professional performance on the job and acquiring new abilities as necessary for the operational processes of new power equipment and systems.

In terms of the number of participations to the programmes organised with external training providers, the greatest share was registered in the technical area, namely 49% of total participations Company-wide.

Figure 14: Distribution of course participations by domains



## 5.3. Organisational efficiency project

In 2016 Transelectrica continued working with the consultant in order to review and validate all reports and analyses. The main effort focussed on the reviews and reports that constitute a new salary system with variable component relying on specific sets of Key Performance Indicators („KPIs”). Everything was completed within the time allocated to the contract and was submitted as main architecture to the Directorate and the Supervisory Board.

Based on the consultant recommendations the project team coordinated by the Directorate have completed the construction of new organisational structures. This project was carried out on two levels, the first attached to the general organisational chart of Transelectrica and the second providing detailed analysis of existing divisions and departments. Thus improved consolidated organisational charts of the new divisions and departments were obtained.

The new structures require better assumed responsibility, significant increase of efficiency (based on process synergy, higher decision making speed and better control of programmes and projects), and optimised position descriptions.

The remuneration system that was elaborated and proposed under the project increasing

operational efficiency will be implemented from 01.01.2017 on and will consist in a first stage of:

- Introducing the permanent increases in the basic salary (labour seniority, uninterrupted seniority in the Company, faithful making index and confidentiality clause) while changing the salary system valid until 31 December 2016
- Transposing the clauses of the former CCM valid until 31 December 2016 in the text of the new CCM, valid beginning with 01 January 2017, which includes the policy and strategy line of Company Directorate in the human resources domain
- Negotiating with trade unions a new Regulation to grant increases in accordance with the CCM applicable from 01.01.2017
- The new remuneration system represents the most plausible scenario for Company employees and includes the new salary grid according to Deloitte's recommendations, providing 9 salary classes and the Classified list of positions and trades, simplified, applicable from 01.01.2017.

In the second implementation stage of the new salary system the KPI will be established for all managerial positions, so that Company employees can contribute to creating a strong organisational culture oriented towards organisational efficiency and performance, and to developing a competency management system.

#### 5.4. Trade union representation

Company employees are affiliated to the Trade Union of Transelectrica, which is part of the National Federation of Trade Unions from Electricity UNIVERS in its turn affiliated to the National Union Block (NUB). At present more than 90% of the total employees pay the monthly subscription to the trade union.

A collective labour contract was concluded between Transelectrica and its employees, valid until 3 January 2017; it regulates the individual and collective labour relationships as

well as the parties' rights and obligations with respect to:

- Concluding, executing, amending, suspending and terminating it;
- Working time and resting time;
- Salary earnings;
- Labour health and security, workign conditions;
- Professional training;
- Social protection of employees and other rights;
- Rights and obligations ensuing from work relations;
- Mutual recognition, employer's rights and obligations and those of trade union organisations.

In order to settle the issues that might occur in the application of the applicable Collective Labour Contract ("CCM"), to avoid working conflicts and to create the organisational framework that allows keeping permanently in touch for preparation of CCM negotiation the parties negotiated to meet any time they need in the joint employer - Trade Union Commission. The joint commission operate in accordance with its own regulation.

#### 5.5. Research and development activities

With a view to provide SEN operation under maximum safety and stability conditions according to the quality standards specified in the transmission licence the Company needs research, support studies and consultancy to ground the decisions and to implement new technologies similar to what is found worldwide and/or specific to the Romanian power system.

Transelectrica finances annually its own study and research programmes, so in 2016 the allocated funds amounting to 3.4 mill Lei situate between 0.1 – 0.2% in the Company's turnover (much below the about 2 - 5% practiced by similar international companies).

The Technical Code of the RET, the RET Development plan, the study on the



operational behaviour of equipment, the licences granted to the Company, ANRE regulations and the chapters from the Annual study and research programme were taken into account when selecting the studies:

- Studies on strategies in the electricity domain;
- Studies to reduce CPT and the Company's electricity consumption;
- Support studies for the Company's Development plan;
- Reviewing the condition of equipment that exceeded its lifetime;
- Studies with respect to integrating renewable sources and to implementing "smart grids";
- Studies assessing the new equipment and technologies;
- Studies with respect to stimulating electricity consumption.

The work carried out under the 2016 Annual Study and Research Programme, which expenses amounting to 1.2 mill Lei were made for, are annually reported to ANRE and refer mainly to the following objectives:

- Post-calculation of CPT and energy balance in the RET, forecast of RET losses by branches and in the entire SEN in 2015-2016;
- Increasing the transmission capacity of the 400 kV OHL, especially in Section VI of Dobrogea region by means of replaced conductors in order to discharge power from renewable sources and provide safe RET operation;
- Mid and long-term RET development (2016 -2020 -2025);

- Assessing the impact of installations from electric substations over personnel health;
- Achieving a nation-wide voltage control system by using the latest power electronics technologies;
- Improving maintenance management to special installations, equipment, buildings and constructions;
- Reviewing energy regulations and guidelines with respect to CPT determination in electric networks.

The draft 2017 Revenue and Expense Budget submitted to Directorate approval proposed studies amounting to 1.8 mill Lei.

## 6. Perspectives and challenges

The perspective of the following years is characterised by an European context marked by significant investment and institutional efforts in order to continue the cross-European integration of energy markets. Safe consumer supply, diversified energy sources, increased economic competitiveness, the affordability of the energy price, the fight against climatic changes and energy efficiency remain the main issues of the European agenda.

In this complex configuration including a very wide range of stakeholders (European and national institutions, direct participants on the energy markets from generation, supply, consumption), the role of electricity transmission networks in reaching the fore-mentioned desiderata is of major importance.

An efficient European electricity market depends, among others, on the capacity of national power systems to host new energy flows under safe operational conditions and low prices. Such flows are piloted by a market characterised by extreme dynamics and increasing cross-border integration.

Nation-wide the objectives and actions of Transelectrica will be aligned to Romania's energy strategy, which for the time being is under wide review and will sustain and facilitate its implementation.

The fore-mentioned context is focussing Transelectrica's concerns and efforts in order to consolidate the safe electricity supply of domestic consumers and to actively participate in the integration process of the single electricity market at European level. These are added the following directions at group level: optimising and rendering efficient the administrative capacity, further implementation of the corporative governance principles, investigating the development opportunities for the business portfolio.

### **Consolidating the safe electricity supply of domestic consumers and increasing energy efficiency of the transmission grid**

- Refurbishing the Electricity Transmission Grid (RET) - Transelectrica aims at expediting the upgrade and refurbishment

process of the entire fleet of equipment and installations from transformer substations and to modernise the dispatch systems it operates at present. Under the new RET development plan of 2016-2025, which was submitted in March 2016 to ANRE and to the Energy Ministry, all substations that have not been addressed to date in the refurbishment / upgrade process were included.

Thus at the end of 2025 Transelectrica aims at operating a fleet of refurbished equipment of high reliability and energy efficiency. The benefits of an upgraded fleet of high reliability equipment are as follows- higher quality of transmission services (network availability, frequency and time of disconnections), and lower network operation cost (operation, maintenance and domestic power consumption);

- Continuing the investments with a view to complete the national 400 kV ring, which will increase the nation-wide safe consumption supply, especially in areas characterised by an important local deficit of electricity generation, namely the areas where electricity consumption is supplied only partially by the power plants located in those areas (Transylvania, Moldova); the deficit of these regions is provided by electricity transmission along important distances from areas of excess generation;
- Increasing the transmission capacity of the RET in order to integrate the electricity generation in conventional power plants and/or renewable parks, estimated to be built in areas that tend at present or in the near future to become excess zones compared to the local electricity demand;

### **Developing the single electricity market in all the European Union (active support for the integration of the single electricity market)**

- Expediting the investment projects into Romania's transmission infrastructure with the highest European relevance (projects

declared of common interest in the EU electricity sector), mainly oriented towards increasing Romania's cross-border interconnection capacity with the power systems of neighbouring countries;

- Participating into the inter-regional integration processes of electricity markets in all time horizons specific to electricity transaction (spot market, day ahead market, intra-day market, real time balancing market between electricity output and consumption);
- Active participation to the European standardisation process of network access, the operation of electricity grids as well as the calculation and allocation of cross-border exchange capacity by means of network codes, which are common rules established at European level and applied in all European states, elaborated with a view to enable the uniform efficient operation of the electricity market to the general benefit of European consumers; network codes are elaborated in the European organisation of electricity transmission networks (ENTSO-E) according to the priority areas determined by the European Commission (EC) based on the framework guidelines issued by the Agency for Cooperation in the energy domain (ACER);

#### **Consolidating and developing systems and mechanisms in the corporate governance domain**

- The dividend distribution policy, and implementing a clear policy of profit distribution to shareholders will increase the predictability of the dividend flow (proposed for approval in the AGA convened on 28.03.2016);
- Implementing the corporate governance principles in the Group companies in order to make efficient and optimise operations with a view to maximising the subsidiaries' contribution to the consolidated results of the Group.

#### **Increasing the organisation's administrative efficiency**

- Optimising the organisational and personnel structure for optimum capacities, both by redesigning internal processes and by occupying key and support positions with properly qualified personnel in terms of number and abilities / competencies;
- Optimising the remuneration of personnel by correlation with individual and collective performance;
- Increasing the digitalisation of internal processes (public procurement, investments, budget, internal managerial reporting and external reporting to relevant institutions with supervision/control attributions over Company operations).

#### **Exploring the business growth potential by extending the current portfolio**

- The regulated network operations in the energy sector of other countries: analysing possible procurements of share packages in the capital of other similar companies;

Non-regulated operations in related sectors: commercial operation of the excess optical fibre capacities against the needs of basic activities (operating the transmission system - dispatching electricity in Romania).

# **Operational Report**

## 7. Operational data

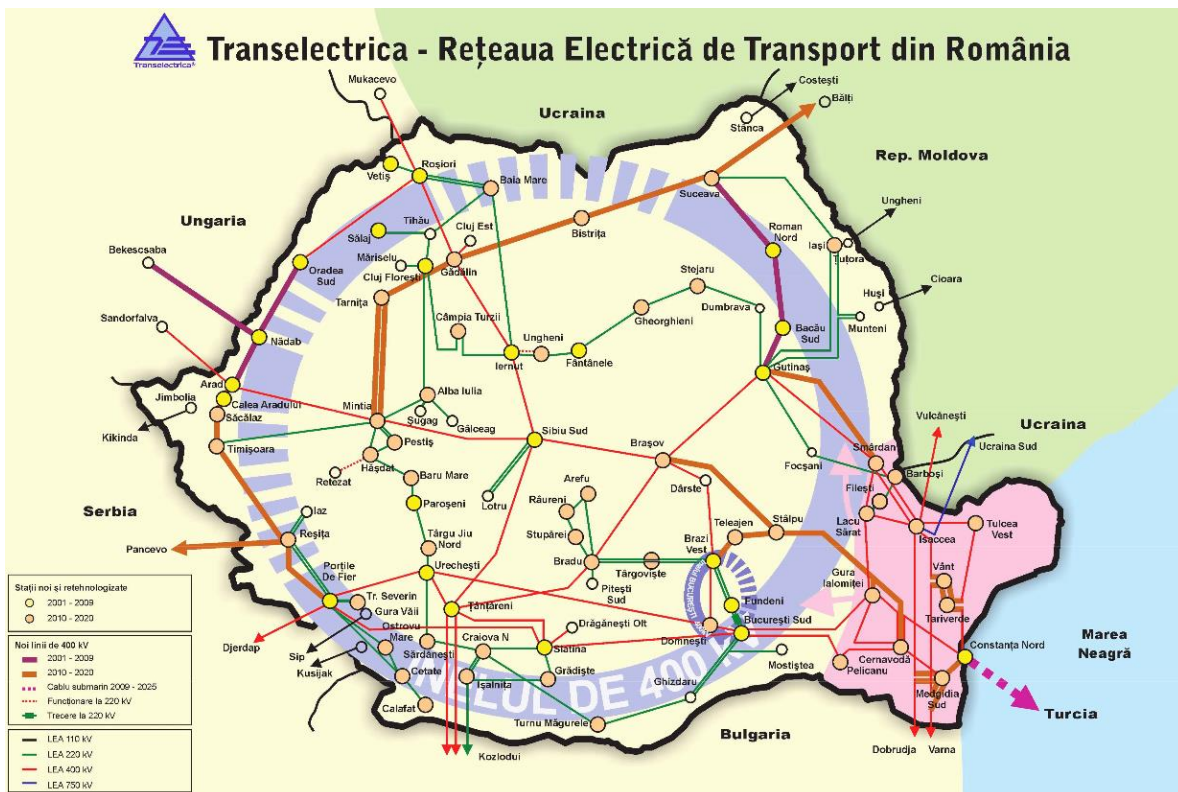
### 7.1. Network configuration

The electricity transmission grid ("RET") is an electric network of national strategic interest of nominal line voltage above 110 kV and it consists of the ensemble of lines plus their sustaining, control and protection elements,

electric substations as well as interconnected electric power equipment.

RET provides interconnection between producers, distribution networks, large consumers and the neighbouring power systems.

Figure 15: The Electricity Transmission Grid



A good part of overhead lines ("OHL") and of electric transformer substations constituting the RET was built in 1960-1970, with the technologies of that time.

The volume of power capacities, in accordance with the licence for provision of electricity transmission services and system services is provided in the adjoining table:

Table 13: Volume of power capacities

Voltage (kV)	Substations (no.)	Installed capacity (MVA)	OHL (km)
400	38	21,435	4,915,227
220	42	14,123	3,875,644
750	1	2,500	3,108
110	-	-	40,418
<b>Total</b>	<b>81</b>	<b>38,058</b>	<b>8,834,397</b>

The Company aims at maintaining, under economic efficiency conditions, the quality of transmission and system services, as well as the safe operation of the national power system, in accordance with the applicable regulations and the standards jointly assumed at European level.

The investments made to date allowed maintaining under proper conditions the dispatcher managing infrastructure and the electricity market infrastructure: the national optical fibre network, the EMS - SCADA monitoring and management system, the metering system of the electricity amounts transacted on the wholesale market, IT transaction and settlement platforms. The modernisation programme of the entire network is underway, in accordance with the highest European standards using upgrade and refurbishment work for the most important electric substations of the RET, as well as developing the transmission capacity along interconnection lines.

Under the new 10 years' development plan of the Electricity Transmission Grid (2016-2025) submitted for ANRE approval in 2016, the Company intends including 40 transformer substations in refurbishment processes during the next 10 years, so that at the end of 2025 Transelectrica will operate a fleet of equipment brought up to date in technological terms, of high reliability and energy efficiency degrees.

## 7.2. Selected operational data

### The energy balance of the SEN

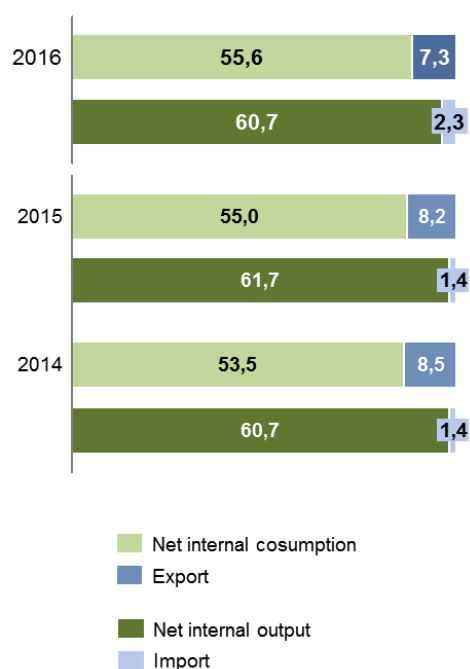
Table 14: Energy balance

TWh	2016	2015	2014
Net output	60.7	61.7	60.7
Import	2.3	1.4	1.4
Export	7.3	8.2	8.5
Net consumption*	55.6	55.0	53.5

\* Values do not include the consumption of auxiliary services from the power plants generating electricity;

The value of the net consumption includes the losses from transmission and distribution networks, as well as the consumption of pumps from the pumping storage hydropower substations.

Figure 16: Energy Balance (TWh)



In 2016 net internal consumption<sup>3</sup> increased 1.1% compared to the same time of last year, when the net power output registered about 1.6% decrease compared to the same time in 2015.

The physical cross-border exchanges decreased 10.3% compared to the same period of 2015, while import cross-border flows registered about 60.5% increase.

### National generation fleet

In 2016 the gross installed capacity in electric power plants registered 1.6% decrease 0.7% compared to 2015.

The installed capacity of renewable sources generation plants increased about 2.8%, from 4,400 MW installed on 31 December 2015 to 4,525 MW installed on 31 December 2016.

<sup>3</sup> Values do not include the consumption of auxiliary services from electricity generating power plants; the value of the net consumption includes the losses from transmission and distribution networks, as well as the pumps consumption from the pumping storage hydropower substations

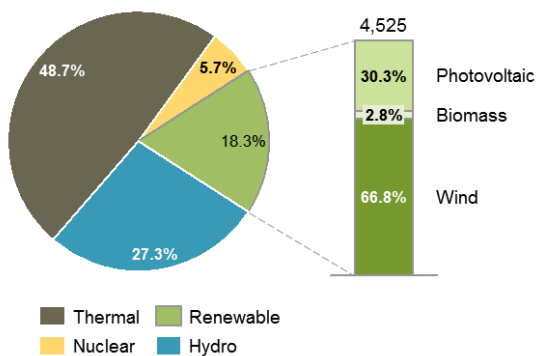
Table 15: Installed capacity (gross values)

MW	2016*	2015	2014	2013
Thermal <sup>4</sup>	12,032	12,011	12,102	12,079
Nuclear	1,413	1,413	1,413	1,413
Hydro	6,744	6,731	6,709	6,648
Renewable <sup>5</sup>	4,525	4,400	4,276	3,563
<b>Total</b>	<b>24,714</b>	<b>24,555</b>	<b>24,500</b>	<b>23,703</b>

\* Values registered on 01.01.2017

The 2016 structure of the generation fleet is provided below:

Figure 17: Installed capacity in 2016



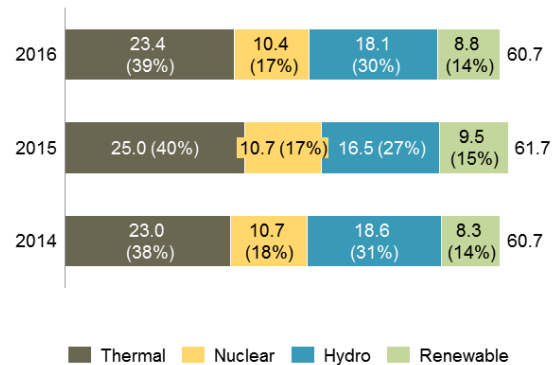
### Mix of electricity generation

In the production mix, in 2016 as compared to 2015, the share of hydropower component increased about 30% while the contribution of the thermal, renewable and nuclear components decreased (42.6 TWh against 45.2 TWh). In this structure the thermal component represented 39% of the generation mix, while the nuclear and renewable output represented 17.1% and 14.5%.

Table 16: Mix of net electricity output

TWh	2016	2015	2014
Thermal <sup>6</sup>	23.4	25.0	23.0
Nuclear	10.4	10.7	10.7
Hydro	18.1	16.5	18.6
Renewable <sup>7</sup>	8.8	9.5	8.3
<b>Total</b>	<b>60.7</b>	<b>61.7</b>	<b>60.7</b>

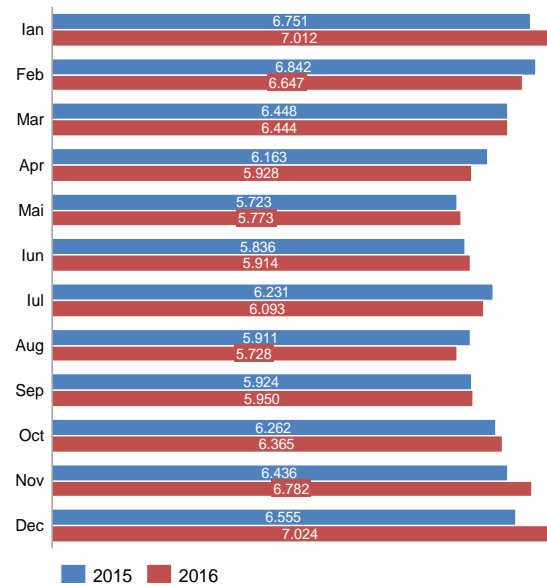
Figure 18: Generation mix, 2014 – 2016 (TWh)



### Net consumption

Each month the net average consumption of electricity in 2016 registered increasing trends compared to 2015.

Figure 19: Net average consumption (MWh / h)



<sup>4</sup> Hydrocarbons and coal

<sup>5</sup> Wind, biomass, photovoltaic

<sup>6</sup> Hydrocarbons and coal

<sup>7</sup> Wind, biomass, photovoltaic

The net maximum hourly consumption corresponding to 2016 was registered in December, with the same trend of last years when the maximum values were registered during winter months.

Figure 20: Net maximum hourly consumption (MWh/h)

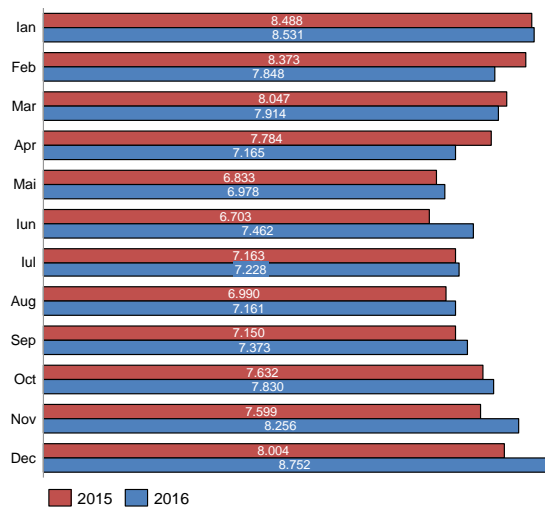


Table 17: 2013 – 2016 maximum consumption

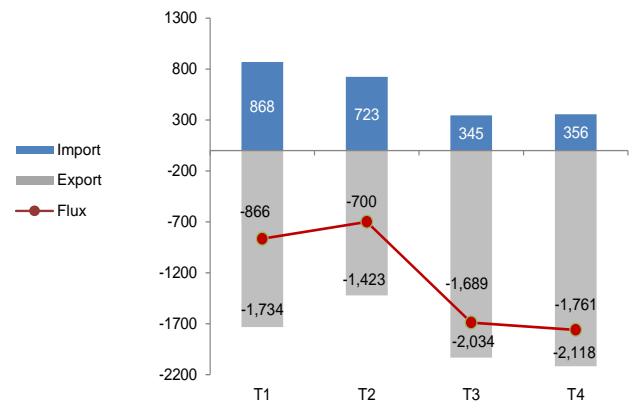
Year	Month	Value (MWh/h)
2016	Dec	8,752
2015	Jan	8,488
2014	Dec	8,464

**Commercial electricity exchanges**

The development of commercial exchanges with neighbouring countries is mainly influenced by the development of prices on the European electricity markets, but also by the availability of generation capacities and the value of net cross-border exchange capacities.

In 2016 the trend registered during previous years was maintained, a net export of 5.0 TWh being registered, which is decreasing compared to 2015.

Figure 21: Cross-border flows (GWh)



**Utilisation of the total capacity allocated**

In 2016 cross-border flows registered positive values along borders with Bulgaria, Serbia and Hungary and decreasing with Ukraine.

- Compared to 2015 the physical export flows grew with Bulgaria (+5%, +207 GWh) and Ukraine (+31%, +93 GWh), while they dropped with Serbia (--30%, --713 GWh) and Hungary (-3-2%, --430 GWh).
- In terms of import it increased in relation to Serbia (+517%, +289GWh), Ukraine (+23%, +278 GWh), Hungary (+125%, +311GWh) and Bulgaria (+27%, +38 GWh)).

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

In 2015 from the total value allocated under the bids for the interconnection capacity (as result of annual, monthly, daily and intra-day allocations), the utilisation degree for export was significantly higher, registering average values of 98% for the export to Hungary, 96% on the export direction to Serbia and around 72% for the export to Bulgaria.

At the end of 2014 day-ahead markets coupling was introduced in Romania, Hungary, Czech and Slovakia, thus passing from the daily explicit to the daily implicit allocation along the Romania - Hungary border. The introduction of such coupling mechanism did not impact the mode of determination, harmonisation and bidding of the available capacity on borders.



Given the higher interest of electricity suppliers to use the cross-border export capacities to Hungary gained following annual and monthly bids, low values resulted of the available capacity for daily allocations on the export direction to Hungary, while a great capacity was freed for import from Hungary using the clearing mechanism.

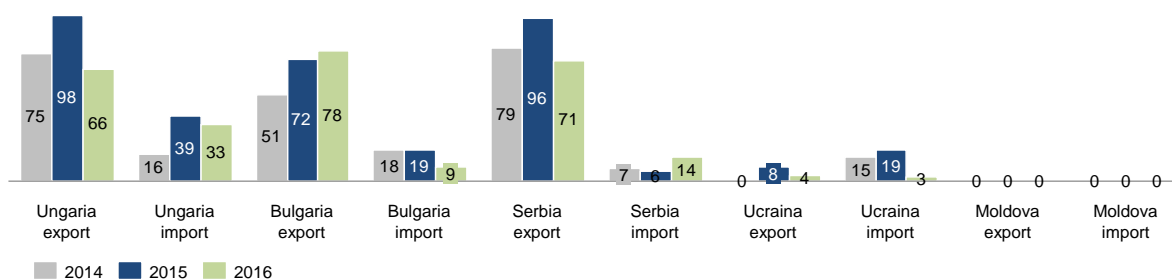
Beginning with 2013 no export was performed under passive island scheme to the Republic of Moldova. Beginning with March 2013, no smore import was taken from the Republic of Moldova under passive island scheme in the SEN.

Table 18: Cross-border interconnections (utilisation of the total allocated capacity, %)

Border	Direction	2016 [%]	2015 [%]	2014 [%]
Hungary	export	65.8	98.1	75.5
	import	33.3	38.5	16.0
Bulgaria	export	77.6	72.4	51.2
	import	8.6	18.7	18.0
Serbia	export	71.1	96.1	78.9
	import	14.0	5.8	7.3
Ucraina	export	3.6	8.0	0.0
	import	2.6	18.8	14.6
Moldova	export	0.0	0.0	0.0
	import	0.0	0.0	0.0

The values from the table represent annual averages calculated as simple arithmetical mediums of average monthly values

Figure 22: Degree of utilisation of total allocated capacities (%)



### Development of one's own technological consumption recorded in the transmission grid

The development of one's own technological consumption/losses ("CPT") in the RET is impacted by several factors independent from Transelectrica's activities, such as: meteorological conditions, output structure producției vs. consumption location, physical import / export flows along SEN borders. The lowest values (compared to the energy injected in the network outline) are registered in droughty years, as low hydraulicity determines the start up of electric power plants fired with gas as primary source and thus a better structure is obtained for generation, while Corona losses are reduced.

Table 19: CPT development in 2013 - 2016

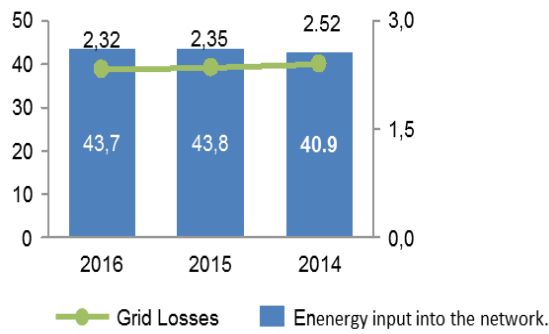
		2016	2015	2014
Energy input in the grid	GWh	43,674	43,758	42,851
Losses	GWh	1,012	1,030	1,026
CPT	%	2.32%	2.35%	2.40%

### Factors that determined the development of CPT (%) in 2016 compared to previous year

In 2016 the quantity necessary to cover the CPT in the RET (1,012 TWh) dropped about 1.75% compared to the same period of 2015 (1,030 TWh), being a mixture of better meteorological conditions, import/ export flows and the output structure.

In comparison with the energy injected in the network outline, losses slightly decreased from 2.35% to 2.32%.

Figure 23: Development of CPT (2014 – 2016)



**Monthly development of CPT in 2016**

Maximum level –March:

In March the CPT has recorded a maximum value: 2.63%.

The low amount of electricity input in the outline contributed directly to a higher CPT percentage.

Import/export flows were not beneficial in CPT terms on the Bulgarian and Serbian borders.

The generation structure was worse and the output of power plants situated in deficit areas decreased (those on gas and the hydropower

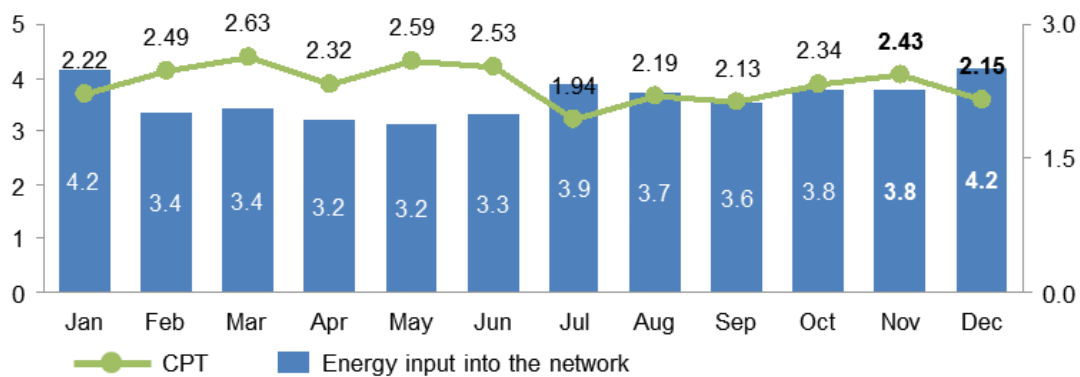
plants with storage lakes), due to the reduction of export.

Minimum level – July:

In comparison with the energy input in the outline, the monthly minimum CPT value was in July, with 1.94% (75.853 GWh). The determining factor of small losses was the better generation structure.

In absolute values there have been three months with low approximately equal values: April (75.113 GWh), which means 2.32% of the electricity input in the RET), July (75.853 GWh, 1.94% of the input electricity) and September (75.724 GWh, 2.13% of the input electricity). The determining factors of decreasing losses in April were- the low value of electricity input in the RET, the favourable structure of domestic output and the beneficial physical flows on the north-western border, located in a deficit region in terms of electricity generation. The low amount of transmitted electricity, to which good meteorological conditions are added, influenced decreased losses in September.

Figure 24: Monthly development of CPT



## 8. RET development

The Administration Plan of Transelectrica provides expediting investment projects with a view to modernise and enhance the Electricity transmission grid, increase the interconnection capacity with ENTSO-E countries as well as with those outside the EU.

Expediting investments is the zero priority for the Supervisory Board (SB) and Directorate members, being motivated by the very financial circuit determining financial performance in accordance with the tariff-setting methodology approved by ANRE and applicable to the Company, which determines provision of financing sources for operational and investment activities.

### 8.1. RET development plan – period 2016 – 2025

The „RET development plan in 2016 - 2025” (“RET Plan”) approved by ANRE relied on reviews on operational RET regimes in future years, based on mid- and long-term scenarios about consumption development, generation fleet and exchanges with neighbouring systems.

To determine the needs of grid enhancement during the time horizon of the RET development plan the actual balancing possibilities of the output-consumption balance were taken into account, as well as the assumption that regulations will provide correlation between the promotion system and the national strategic objectives so that the total installed capacity in wind and photovoltaic parks can be brought to a level close to the one required in order to provide efficient sustainable development.

RET infrastructure projects by their specific features need a higher period of preparation and achievement, therefore results become visible only after a certain number of years.

Experience shows the usual complete cycle of an investment project (beginning with the initial

design stage, elaborating the feasibility study, the terms of reference and technical project, up to project execution and commissioning) in order to carry out / refurbish one electric substation is of 5 years in the average, while building a new electric line requires 9 years.

The generation park of Dobrogea region has had rapid development. Many wind and photovoltaic power parks were built. There are also plans for two more nuclear units in NPP Cernavoda. Consequently one needs consolidating the internal network segment providing power transmission to the consumption and storage centres situated in the west and northern parts of the region. Starting from about 3,000 MW output of new parks in Dobrogea (regardless of the source used - WPP, PHPP, NPP Cernavoda, CHPP Braila, CHPP Galati) the need occurred to enhance the network capability to discharge the power. Depending on the exact location of park projects that will be built and on the distribution manner of park loads in the remaining parts of the SEN, such need can occur around 2,500 MW / 3,500 MW.

Network development should take into account solutions that enable eliminating the congestions along the main directions of power flows between generation centres in the eastern part of the country and the western consumption and storage centres, which correspond to the following transmission corridors:

- N-S corridor inter-connecting Dobrogea and Moldova;
- E-W/S corridor connecting Dobrogea and Bucharest + limit area/south of the continent;
- E-W corridor connecting Moldova and SEN to the west.

Developing generation capacities using renewable sources leads to intensified exchanges between systems and fluctuating power flows across vast regions. The

experience of last years and the forecast of the following period indicates a high demand of Romania's network at the borders with Serbia and Hungary, both for exchanges between the SEN and these systems and for transit crossing the SEN network. Increasing the exchange capacity at the western interface of the system is required in order to provide the infrastructure necessary for electricity exchanges in the region.

Projects increasing the interconnection capacity with the Republic of Moldova are under review as well, therefore the volume of power exchanges carried out currently by means of radially connected consumption/output islands can increase to significantly greater values.

Enhancing Romania's interconnection capacity will facilitate exporting the generated energy in certain time intervals by wind and photovoltaic parks of the SEN, which exceed domestic demand. Also an additional transmission capacity will be placed at the disposal of market participants in order to export the output available in thermal power plants competitive on the energy market or to import cheaper energy available on the market during certain hourly intervals.

The steady-state regime and steady-state stability reviews showed the monitored sections S4 (supply section of N-W Transylvania region) and S5 (supply section of Moldova region) provide high risk of operation close to the maximum admissible power in the section, both in the mid and in the long term, thus proving the need to enhance each one of these regions. To this effect enhancing the electricity transmission network by completing the 400 kV ring between the north-eastern and north-western parts of the SEN is beneficial with respect to increasing power reserves of steady-state stability both for sections S4 & S5 and for section S3 (common transmission section Dobrogea+Moldova and the remaining SEN). Several areas were identified where local safety problems of consumption supply are estimated and additional injection capacities should be installed from the 400 kV network towards the lower voltage (Iernut, Sibiu).

### Projects included in the RET development plan – period 2016 - 2025

In accordance with the competencies and attributions established in the Electricity and natural gas law 123/2012 and with the Conditions associated to Licence 161 for electricity transmission and provision of system services, the National Power Grid Company Transelectrica SA plans the development of the electricity transmission network taking into account the current stage and the forecasted development of consumption, the generation fleet and the electricity exchanges, thus every two years elaborating a Development plan for the next ten successive years.

The latest edition approved of the Ten years' development plan refers to 2016 - 2025. This was approved by ANRE under Decision 1251/2016 and by MECRMA under Agreement 4953/C6B/2016.

The RET Development Plan represents a highly important document for Company activities, which identifies and proposes the development and modernisation projects of the electricity transmission grid in the following ten years, in correlation with the forecasted development of electricity consumption, while observing applicable technical norms.

The main objectives which, when achieved, lead to the need to develop the RET are:

- Increasing the interconnection capacity with other systems;
- Increasing the transmission capacity between the eastern part (Dobrogea) and the rest of the interconnected SEN;
- Safe consumption supply from deficit areas at standardised quality and safety parameters;
- Refurbishment and upgrade of existing substations.

The following main projects were identified and the adequacy of the following RET developments was verified, whose completion terms took into account the time necessary to carry out the investments:

### **Increasing the cross-border interconnection capacity**

Increasing the exchange capacity along Romania's western interface is planned for the following network developments:

PCI Romania–Serbia Group between Resita and Panchevo", known as „Mid Continental East corridor", which includes the following projects of common interest:

- 400 kV double circuit OHL Resita (RO) – Panchevo (Serbia);
- 400 kV OHL Portile de Fier – Resita and extending the 220/110 kV substation Resita by building a new 400 kV substation;
- Converting the 220 kV double circuit OHL Resita –Timisoara – Sacalaz – Arad to 400 kV, including construction of 400 kV substations Timisoara and Sacalaz.

### **Increased transmission capacity between the eastern region (especially Dobrogea) and the rest of the interconnected power system; system integration of the power generated from RES and other sources in Dobrogea**

PCI „Bulgaria–Romania Group, capacity increase", known as „Black Sea corridor", which includes the following projects of common interest:

- 400 kV double circuit OHL Smardan – Gutinas;
- 400 kV double circuit Cernavoda–Stalpu, with one input/output circuit in Gura Ialomitei.

Other projects increasing the discharge capacity from Dobrogea:

- Input / output connection of 400 kV OHL Stupina – Varna and 400 kV OHL Rahman – Dobrudja in the 400 kV substation Medgidia Sud;
- Extending the 400/110 kV substation Medgidia Sud and refurbishing the 110 kV substation to increase the breaking power of breakers in correlation with increasing the short-circuit current;
- 400 kV simple circuit Gadalin – Suceava;
- 400 kV OHL Stalpu – Brasov/ Darste;
- Converting the operational voltage of the 220 kV OHL Brazi Vest - Teleajen – Stalpu to 400 kV (built for 400 kV), including construction of the 400 kV substations Stalpu and Teleajen;

- 400 kV double circuit OHL Medgidia Sud – Constanta Nord;
- 400 kV simple circuit OHL Suceava – Gadalin;
- Replacing conductors of 220 kV OHL Stejaru - Gheorghieni - Fantanele;
- Increasing the transmission capacity of the 8 km long segment with smaller section on the 400 kV OHL Bucharest Sud - Pelicanu;
- Increasing the transmission capacity of the 53 km long segment with smaller section on the 400 kV OHL Cernavoda - Pelicanu.

### **Integrating the power generated from other power plants in the SEN**

To provide safe discharge of power from HPP Iron Gates II, an agreement was made with SC Hidroelectrica SA to discharge at 220 kV by building the 220 kV substation Ostrovul Mare, and the 220 kV double circuit OHL connecting Ostrovul Mare to the 220 kV OHL Portile de Fier - Cetate.

To provide safe discharge of power from the thermal power plants Craiova and Isalnita a plan was made to increase the transmission capacity of the 220 kV OHL Isalnita – Craiova circuit 1 (9.6 km).

### **Safe consumption supply from deficit areas**

- Installing the second 400/110 kV transformer in substation Sibiu Sud reserve the single injection from RET in Sibiu area;
- Instalng the second 400/220 kV, 400 MVA AT in substation Iernut to provide consumption supply in N-V country area, since there is not enough installed capacity in the power plants of the area;
- Replacing the active conductors of the 220 kV d.c. OHL Bucharest Sud – Fundeni to increase the admissible transmitted power;
- Replacing the 110/10kV, 25 MVA T3 & T4 with 110/(20)10 kV, 40 MVA transformers in substation Fundeni.

### **Refurbishment and modernisation of existing substations**

A significant number of existing substations are / will be included in a sustained refurbishment and upgrade plan for installations and equipment:

-Bucharest Sud 440/22/110/20 kV,

-Bradu 400/220/110/20 kV,  
-Campia Turzii 220/110 kV,  
-Tihau 220/110 kV,  
-Cluj Est 400/110/10 kV,  
-Suceava 110/20 kV,  
-Vetis 220/110/20 kV,  
-Sardanesti 220/110/20 kV,  
-Turnu Severin Est 220/110 kV,  
-Domnesti 400/110/20 kV,  
-Isaccea 400 kV,  
-Arefu 220/110/20 kV,  
-Raureni 220/110 kV,  
-Dumbrava 220/110 kV,  
-Electric steel works Hunedoara 220 kV,  
-Ungheni 220/110/20 kV,  
-Medgidia Sud 110 kV,  
-Filesti 220/110 kV,  
-Craiova Nord 220/110 kV,  
-Timisoara 110 kV,  
-Baru Mare 220/110kV/MT,  
-Iaz 220/110 kV,  
-Hasdat 220/110 kV,  
-Munteni 400(220)/110/20 kV,  
-Focsani Vest 400(220)/110 kV,  
-Pelicanu 400/110 kV,  
-Bacau Sud 110 kV,  
-Roman Nord 110 kV,  
-Stalpu 110 kV/MT,  
-Ghizdaru 220/110/20 kV,  
-Draganesti Olt 400/110 kV,  
-Gradiste 220/110 kV;

Modernisation/ replacement of command control protection system in 7 substations (220/110 kV Calafat, 400/110kV/MT Constanta Nord, 400/110/20 kV Oradea Sud, 400/220 kV

Rosiori, 220/110/20 kV Targoviste, 220/110/10 kV Fundeni, 220/110/20 kV Fantanele).

The following projects are also provided, with a further time horizon:

- Refurbishing the 110 kV substation Sacalaz (correlated to the work of the western axis);
- Refurbishing the 220/110 kV/MT substation Alba Iulia;
- Refurbishing the 400/110 kV substation Darste;
- Modernising/replacing the command control protection system of 15 substations (220/110/20 kV Salaj, 220/110 kV Baia Mare 3, 400 kV Tantareni, 400/220/110 kV/MT Urechesti, 220/110 kV Paroseni, 220/110 kV Pestis, 400 kV Nadab, 400 kV Calea Aradului, 400/220/110 kV Bucharest Sud, 220/110 kV Turnu Măgurele, 400/220/110 kV Brazi Vest, 400/110/20 kV Gura Ialomitei, 220/110/20 kV Mostistea, 400/220/110/20 kV Sibiu Sud, 220/110/20 kV Gheorgheni).

## 8.2. Investments

### 8.2.1 Investments of 2016

The value of non-current assets registered in accounting books in 2016 was 93.27 mill Lei.

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

- Increasing the safety of installations from the 400/220/110/10 kV substation Bucharest Sud - replacing the 10 kV equipment - Lot II – 18.6 mill Lei;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV - Stage I - Extending the 400 kV substation Portile de Fier – 12.9 mill Lei;
  - Replacing autotransformers and transformers in electric substations – stage II – 9.8 mill Lei:
    - 16 MVA transformer T2 - 110/20 kV substation Ungheni;
    - 25 MVA transformer T2 - 220/110/20 kV substation Gradiste;
    - 25 MVA transformer T1 - 110/20 kV substation Gheorgheni;
    - 200 MVA autotransformer AT2 - the 220/110 kV substation Ungheni;
- Connecting to RET the 27 MW WPP from the area of Stalpu locality, Buzau County, by building two 110 kV bays in the 220/110 kV substation Stalpu – 2.1 mill Lei;
- Integrated security system in the new 400 kV substation Stupina – 1.9 mill Lei;
- Upgrading the ac & dc auxiliary services in the 400/110 kV substation Draganesti-Olt – 1.9 mill Lei;
- Replacing the central SCADA equipment of the 400/220 kV substation Gutinas – 1.5 mill Lei;
- Replacing the conductors, 220 kV OHL Craiova Nord - Isalnita, circuit 1 – 1.2 mill Lei;
- Upgrade of industrial building 2 of TB Timisoara, Sp+P+1E – 1.2 mill Lei;
- Upgrading one 110 kV OHL bay Iron Gates - Gura Vaii in 110 kV substation Iron Gates and two 6 kV bays – 1.1 mill Lei;
- Consolidating and upgrading compensator building in 400/220/110/20 kV substation Suceava - 1 mill Lei;
- Connecting the park generating electricity from biomass by cogeneration of 5.4 MW

installed capacity - WPP ENVISAN - stage 1 – 1 mill Lei;

- Regulating the co-existence of 220 kV OHL Mintia-Timisoara in sector 303-305 when crossing Timisoara-Lugoj Motorway, lot 2, km 54+000 - km 79+625 – 0.9 mill Lei;
- Extending the ac & dc auxiliary services, completing the command control protection system of the 220/110 kV substation Pestis – 0.6 mill Lei;
- Connecting the drainage installation of the 400/110 kV substation Brasov to the city's – 0.6 mill Lei;
- Replacing tower 301 of the 400 kV OHL Mintia - Sibiu Sud – 0.5 mill Lei.

In 2016 execution contracts were signed for the following major investment objectives:

- Upgrading the 400/110 kV substation Dumbrava (20.5 mill lei);
- Replacing the EMS SCADA AREVA system components (11 mill lei);
- Refurbishing the 400 kV substation Isaccea, stage I – Replacing shunt reactors, related bays and the 400 kV bay Stupina (6.5 mill E);
- Refurbishing the 220/110 kV substation Turnu Severin Es (9.5 mill E)t
- Urgent remedial of failed 400 kV OHL Iernut – Gadalin & 220 kV OHL Baia Mare (5.9 mill lei);
- Upgrading the 220/110/20 kV substation Arefu (24.2 mill lei);
- Upgrading the 220/110 kV substation Raureni (16.9 mill lei)

General difficulties to begin the fore-mentioned projects were notified for reasons of:

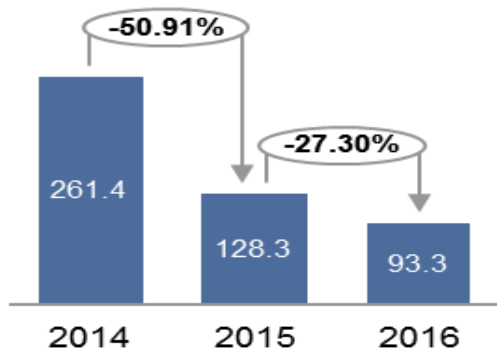
- Delays in achieving the technical execution projects
- Installations were not disconnected during the planned time intervals
- Contractors' incapacity to execute work simultaneously to several objectives.

The 2016 procurements of property, plant & equipment and of non-current assets<sup>8</sup> amounted to 171.3 mill Lei compared to 2015, when procurements were 243.1 mill Lei.

Table 20: Procurements of property, plant & equipment and of non-current assets

Mill Lei	2016	2015	2014
Procurements of property, plant & equipment	171	243	188

Figura 25: Value of non-current assets entered in accounting books (VAT free, mill Lei)



The main 6 investment projects that began in 2016:

**Modernising the 220/110 kV substation Dumbrava**

The project means replacing the primary and secondary equipment in the 220 kV substation Dumbrava and replacing the primary 110 kV equipment while completing the 110 kV Command Control Protection System (SCCP) with the second protection group and integrating in the substation’s SCADA.

Thus the upgraded substation Dumbrava will have new performing primary equipment using present-day technologies and an advanced command-control-protection system of high reliability, which provides remote control.

**Refurbishing the 400 kV substation Isaccea**

The purpose of refurbishing the 750/400 kV substation Isaccea is subordinated to

Transelectrica’s notion provided in „General concept of the remote control strategy for refurbished substations”. Following such refurbishment of substations they will be remotely controlled (tele-command, tele-signalling, tele-metering) from the offices of DEC / DET Bucharest / TB CTSI.

The project will have 2 (two) stages:

STAGE I includes:

- a. Installing the two 100 MVar bucking coils, and equipping their 400 kV bays (while extending the 400 kV bus bars);
- b. Building a bay for the 400 kV OHL Stupina.

STAGE II includes:

- Refurbishing the main 400 kV substation by installing up-to-date equipment and sizing the bus bars for 40 kA, 1s limit current and 4000 A primary nominal current;
  - Providing reserve spaces in the main substation for two 400 kV OHL bays and a 400/110 kV transformer bay, including space for the transformer itself;
- Providing space in the main 400 kV substation for a future 750(800)/400 kV autotransformer bay.

**Refurbishing the 220/110 kV substation Turnu Severin Est**

The project aims at building new 220 kV & 110 kV substations provided with the latest state-of-the-art primary and secondary equipment and at providing the remote control of the entire substation from the Remote Control Centre of TB Craiova and the central and territorial dispatcher centres, with a view to comply with the present-day requirements of functional and operational safety of the SEN, thus leading to higher quality of electricity transmission services and higher safety of services provided to the users of the electricity transmission grid.

Refurbishing the 220/110 kV substation will enable the remote monitoring and diagnosis of

<sup>8</sup> Includes the asset suppliers’ turnover on balance on 30 September 2016



pieces of equipment, as well as reduced maintenance costs.

**Urgent remedial of failure to 400 kV OHL Iernut - Gadalin and 220 kV OHL Iernut - Baia Mare 3**

The remedial work to the 400 kV OHL Iernut – Gadalin and the 220 kV OHL Iernut – Baia Mare 3 aims at eliminating the effects of failures occurred in June 2016, as a result of tornado like particular meteorological conditions (rainfall, wind gusts of 112 km/h) in the area of Cuci locality (near substation Iernut). Thus after such storm six fallen towers were found to the 400 kV OHL Iernut – Gadalin and four fallen towers to the 220 kV OHL Iernut – Baia Mare 3.

**Modernising the 220/110/20 kV substation Arefu**

The main objective of this project is to upgrade with the latest technologies the 220/110/20 kV electric substation Arefu with a view to tele-manage it according to Transelectrica’s strategy. The modernisation project of Arefu substation takes into account work to the primary and secondary circuits of the 220 kV, 110kV and 20 kV substations. Primary equipment which is over 30 years old will be replaced by new performing one using present-

day technologies. Secondary circuits will be fully upgraded by implementing an advanced command-control-protection system designed in accordance with the latest high reliability requirements worldwide.

**Modernising the 220/110 kV substation Raureni**

The main objective of this project is to upgrade using present-day technologies the 220/110 kV electric substation Raureni with a view to tele-manage it according to Transelectrica’s strategy. The modernisation project of Raureni substation takes into account work execution, delivery of equipment and provision of services (design, engineering, testing, commissioning) for the primary and secondary circuits from the 220 kV and 110 kV substations.

Thus the primary equipment which is over 30 years old will be replaced using new performing equipment with present-day technologies. Secondary circuits will be fully upgraded by implementing an advanced command-control-protection system designed in accordance with the latest high reliability requirements worldwide.

**8.2.2 The Investment programme of 2017 and estimations for 2018-2019**

The Company aims at stimulating investments for RET modernisation and refurbishment as well as in order to increase the interconnection capacity with neighbouring countries both to provide safe operation of the National Power System and to facilitate electricity exports.

The Company’s 2017 Investment Programme and the investment expenses estimated for 2018 and 2019 was grounded taking into account the following elements:

- The strategic objectives defined in the Company’s Administration Plan;
- The investment priorities established in the RET Development Plan in 2016 – 2025;
- The execution schedules of further investment projects.

- The proposals received from project directors, branches and entities from the executive part of CNTEE Transelectrica SA
- The main risks that can impact the achievement of the PAI 2017

The main investment areas

- Refurbishment of the existing electricity network, represented by:
  - Upgrading electric substations;
  - Modernising the command-control-protection systems from substations;
  - Replacing the power autotransformers and transformers from electric substations.

- Increasing the interconnection capacity with both neighbouring ENTSO-E countries and with those outside the EU – Moldova, Serbia and completing the national 400 kV ring;
- Integrating the output of new power parks and eliminating congestions;
- Developing the capabilities of system operator (dispatching);
- Modernising the IT and telecommunication infrastructure.

Table 21: Investment plan (mill Lei, VAT free)

No.	Categories of investment	2017	2018	2019
	<b>Total investments (I+II)</b>	<b>349</b>	<b>513</b>	<b>533</b>
<b>I</b>	<b>Own Company investments</b>	<b>344</b>	<b>511</b>	<b>533</b>
a	Further investments	225	188	142
b	New investments	6	63	75
c	Investments for existing assets	86	251	312
d	Other investment expenses	27	9	4
<b>II</b>	<b>Investments financed from connection fee</b>	<b>5</b>	<b>2</b>	<b>0</b>

The 2016 investment expenses by the main programme chapters in correlation with the main chapters of the Development plan are detailed as follows:

#### **Company own investments: 163 thousand Lei**

The amount allocated to further investments is 138 mill Lei, this representing 85% of the Company's own investment expenses.

Investments for existing assets represent 8% from the achievements of 2016.

#### **8.2.3 Investments financed from the connection fee**

Their value provides a strongly decreasing trend because of the impact of the new green certificate legislation, since many investors in renewable energy sources gave up the connection to the SEN, or they requested postponing it even if they had paid the connection fee. Thus the annual average of these connections was 100 mill Lei in 2009-2012, period of intensive development of wind parks, but 2016 ended with only 5 mill Lei, amount estimated also for 2017.

### **8.3. Quality of provided services**

In accordance with the Performance standard for electricity transmission and system services approved by Order 17/ 2007 of ANRE, the

representative performance indicators for RET management and operation and for continuity of transmission services are:



**99.9981%**

**Availability of the transmission grid**

- Transmitted electricity (GWh) and the percentage coefficient of losses in the electricity transmission network – values presented in the CPT section (Operational data);

Average unavailability of installations in time, determined by scheduled or unscheduled (accidental) events, against km for lines (INDLIN) or MVA for transformers and autotransformers (INDTRA)

Table 22: Performance indicators for RET management / operation

Indicator	2016	2015	2014
<b>INDLIN (h / year)</b>			
<b>Total</b>	<b>186.79</b>	<b>184.30</b>	<b>142.59</b>
• Unscheduled (accidental)	16.88	36.66	27.97
• Scheduled	169.91	147.97	114.62
<b>INDTRA (h / year)</b>			
<b>Total</b>	<b>204.29</b>	<b>155.01</b>	<b>112.18</b>
• Unscheduled (accidental)	4.91	8.90	8.53
• Scheduled	199.39	146.11	103.65

- Energy not supplied to consumers - ENS because of disconnections and the average interruption time<sup>9</sup> – AIT:

Table 23: Indicators for the continuity of transmission services

Indicator	2016	2015	2014
Energy not supplied to consumers (MWh)	224.69	38.36	82.51
Average interruption time (min / year)	1.93	0.36	0.82

<sup>9</sup> AIT – means the time equivalent average period, expressed in minutes, during which the electricity supply was interrupted

## 8.4. Maintenance

Maintenance activities conform to the *Maintenance Programme* (PAM) elaborated using the Regulation of management and organisation of maintenance activities approved by Order 35/2002 of the National Regulatory Authority in the Energy domain (ANRE), *Regulation of preventive maintenance to the RET installations and equipment* - Technical internal norm of Transelectrica symbolised NTI-TEL-R001-2007-03 and the *Annual maintenance programmes* (PM).

PAM provides *activity regulation by introducing the modern concept of activity optimisation and running* and is applied to all maintenance components (technical, economic-financial, relational, organisational) as provided to all assets from the RET. PAM comprises and maintains *all the documentation regarding maintenance activities* while providing the framework to elaborate, review, update the documents pertaining to maintenance depending on needs.

NTI-TEL-R-001-2007-03 provides application of maintenance work/services only in *opportune moments, according to necessary quantities and quality*, in such manner as to comply with the following important desiderata:

- Maintaining a proper safe operational level of RET installations;
- Maintaining the intrinsic reliability indexes of functional assemblies and component equipment;
- Increasing the availability of installations;
- Optimising the total costs during utilisation;

This provides *categories* (preventive, corrective) and *levels* (minor, major) of maintenance, fundamental planning principles, general orientative operations, periodicity etc. and constitutes the basis for the elaboration of annual (value and physical terms) maintenance programmes.

Annual maintenance programmes are grounded on the Maintenance regulation and include all principles of maintenance activities into maintenance work and services, while also providing all necessary financial resources.

### Categories, levels and types of maintenance practiced in Transelectrica; selection mode for maintenance types

#### Categories of maintenance

Maintenance services / work are carried out to Transelectrica's electric installations, according to each case:

- Preventive – profilactic to prevent defects, namely to reduce the likelihood of defect or degradation;
- Corrective – when defects are detected, including all actions meant to restore an installation to the condition enabling it perform the specified functions,

While aiming at optimising all objectives proposed for RET:

- Operational safety,
- Availability,
- Efficiency

As well as the compliance with the Performance standard.

#### Levels and types of maintenance activities

Maintenance work/services are classified according to the „Regulation of management and organisation of maintenance activities”, namely PAM, by *4 levels* (level 1 - 4) which mean the complexity degree of services/work, the necessary tools/outfits, the needed qualification for providers/contractors etc.

Levels 1 & 2 represent services/work falling in the *minor maintenance* category - usually supervision, visual control, expertise, inspections and revisions, while levels 3 & 4 mean *major maintenance*- usually repairs.

#### Preventive maintenance

*The basic principle provides that any preventive maintenance action should prevent some accidental unavailability.*

The types of preventive (planned) maintenance services / work are classified by levels as follows:

- Level 1 – supervision, visual control, expertise (thermvision, special oil analysis etc), profilactic measurements, technical – IT inspections;
- Level 2 – technical review work – RT;
- Level 3 – current repair work – RC;
- Level 4 – capital repair work – RK.

A particular type of maintenance is *rehabilitation*, defined according to Order 35/2002 of ANRE as ensemble of *complex maintenance* work which, without changing the initial technology, restores the technical efficient condition of installations to a level close to the beginning of their lifecycle. In the RET rehabilitations are taken into account for electric substations, with replacement of equipment, and for OHL by replacing elements to improve reliability.

### **Corrective maintenance**

**Corrective** maintenance work/services classify on two levels- within minor maintenance (control, inspection, check-up, measurement, revision activities after accidental events – technical defects and incidents) and major maintenance (repairs and replacements of equipment following accidental events such as incidents that seriously damage the equipment).

Corrective maintenance activities (accidental services/work) are urgently executed to all installations in accordance with the provider's/contractor's maintenance work/service obligations assumed under contract.

One's own experience and that of other electric power systems provided also in CIGRE documents show that, in case of maintenance to complex assets such as the RET installations / equipment, it is seasonal to use a combination of methods grounding the performance of preventive maintenance activities, namely:

- Time Centred Maintenance (TCM) and Evaluation of Time Centred Technical Condition (ESTBT) – visual controls, profilactic measurements, tests etc. (the name „systematic preventive maintenance” is also used);

- Maintenance Centred on Technical Condition (MBST); the name „conditional preventive maintenance” is also used;
- Monitoring and diagnosis (on-line or off-line);
- Reliability Centred Maintenance (RCM);
- Risk Centred Maintenance – RCM - (with a view to prioritise activities);
- Special tests and expertise.

Within RET a combination of such methods will be used, namely:

- Services/work of levels 1 and 2 constitute minor preventive maintenance (mPM) and, depending on the category, voltage and technical characteristics (technology) of functional ensembles and their components will be scheduled in time - by planning at pre-determined time intervals relying on operational experience, while also taking into account their importance within the RET, and it can be adjusted (tailored) depending on condition and on significance;
- Work of levels 3 and 4 constitutes major preventive maintenance activities (MPM) și and they rely on condition, depending on the technical condition of installations, as determined using various procedures.

Preventive maintenance centred on condition includes determinations / forecasts of technical condition based on the information obtained by means of *supervision, visual controls, expertise, technical inspections and revisions*, which means the primary information obtained from minor maintenance.

Major preventive maintenance (MPM) to technological installations that provide electricity transmission (considered functional ensembles), is grounded, planned and scheduled in differentiated manner for each functional ensemble, while applying the Reliability Centred Maintenance – RCM – principles, a methodology that can also serve to direct the proposals with the needs of new investments.

Annual maintenance programmes are carried out providing priority to work/services that lead to increasing the operational safety of installations, or to completing the contracted work/services and those contributing to the good operation of installations. One should also take into account the perspective implementation of the remote control and supervision programme for electric installations, which needs rehabilitating the electric equipment and will lead to reduced personnel and operational expenses in the

In 2016 maintenance expenses amounted to 84 mill Lei, which include major and minor maintenance, as well as other maintenance expenses.

Table 24: Types of RET maintenance (mill Lei)

Maintenance	Budget 2016	Achievements 2016
Minor preventive	47	40
Minor corrective	22	17
Major preventive	57	27
Total	126	84

The minor preventive maintenance programme was fully applied in physical terms, with 18% budget savings, while corrective maintenance was applied to a lesser extent because installations recorded no defects, against an optimum operational background provided by proper preventive maintenance.

### The 2016 maintenance programme and estimations for 2017-2018

The 2016 Maintenance Programme includes management of electric installations running and the maintenance of non-current property, plant and equipment such as electric installations and technologic buildings (except for the IT & Tc, the remote control and integrated security systems), which constitute the electricity transmission network (RET), when costs are minimised, assets are best used and their performance is increased, preventive, corrective and reliability centred maintenance services/ work, services/ work in the design stage and services/ work underway. being structured by programmes and projects depending on installation types, as follows:

- Services/work to electric substations and power transformers
- Services/work to overhead lines, technological buildings and other power installations
- Services/work specific to the maintenance of electricity metering equipment (making or repairing supply, communication circuits, repairs of equipment metering and monitoring electricity quality etc).

The main concern in the application of maintenance programmes was and still is to provide operational safety of the SEN by means of:

- Updating the maintenance policy, strategy and regulation of CNTEE Transelectrica SA.
- Providing preventive and corrective maintenance:
  - Minor maintenance based on the contract concluded with Subsidiary SMART.
  - Major maintenance by projects (high power transformer units, OHL, substations and technological buildings) based on contracts concluded with special entities;
- Using IT applications / databases for operation and maintenance activities.
- Optimising costs, reducing repair times and the unavailability period of installations by concluding the framework agreement AC 14/2016,

pertaining to the supply of medium and high voltage primary equipment;

- Analysis and expertise to the Company's power transformer units. The results were used in order to prioritise their replacement under investment projects.
- Optimising maintenance costs to OHL by making multispectral investigations (in visible, infrared and ultraviolet spectrums), by laser scanning and replacing defect components.
- Introducing modern technologies and methods for diagnosis, supervision and monitoring into maintenance activities, or by general application of solutions resulting from pilot projects such as:
  - Installing on-line monitoring systems to transformer units and OHL-s;
  - Installing pedulums or inter-phase insulators that reduce the galloping of OHL-s;
  - Checking the structural capability of OHL towers taking into account the climatic changes registered lately;
  - Non-invasive review of sustaining elements of OHL towers (anchors, foundations);

The 2017 and 2018 estimations for the values of maintenance programmes took into account mainly the necessary technical work contained in the RET development plan for 2016 - 2025,

the provisions of the Administration Plan of CNTEE Transelectrica SA, of the Preventive maintenance regulation to RET installations and equipment, the requests of Transmission Branches and the increased number of accidental events to OHL-s.

Future maintenance activities will be rendered efficient by:

- Organising the maintenance activity programmes / projects by the project directors for substations maintenance; OHL maintenance; transformer maintenance; buildings maintenance;
- Continuing the multispectral inspection to OHL and LASER scanning;
- Continued implementation of new devices and technologies;
- Using non-invasive methods to find out the technical condition of electric installations;
- Elaborating the methodology for emergency interventions to OHL-s;
- Coordinating the energy efficiency study and updating the operational procedures;

## 9. Non-regulated activities

The involvement of certain companies that operate as TSO similar to Transelectrica non-regulated activities is known in Europe. These companies carry out profitable activities under competitive regimes. Such developments are meant to create an additional revenue source and additional profit for Company shareholders using the internal human and material resources of companies or corporations, in case the mother Company has its own subsidiaries. Competitive activities and projects are achieved in their own name or by cooperation with great companies consecrated in the power domain, for wide-scale projects.

Performing non-regulated activities also allows developing the knowledge and promotion of new technologies and solutions from the power domain that have significantly evolved and grown these last years, both in terms of concepts & solutions and of equipment.

EU companies such as TERNA (Italy), RTE (France), Austrian Power Grid have promoted such activities next to important societies like AREVA, Siemens, etc by whom they used and improved experiences by achieving development and upgrading projects into power installations.

In Transelectrica and its subsidiaries SMART, Teletrans and OPCOM there is a great amount of expertise in various activities such as consultancy, project design, implementation and execution, organising bids to procure goods, services and work, to provide the needs of various activities, execution, operation, maintenance acquired and verified during refurbishment and modernisation projects they participated to in all conceptual, solution studies, execution stages up to commissioning and later capitalisation.

For the time being non-regulated activities developed by the Company take into account the degree of energy efficiency of installations it operates. Thus pilot programmes were elaborated that were meant to generate energy from electric substations with a view to get high energy independence.

The Company and its subsidiaries can carry out profitable activities under competition while observing legal provisions in the following domains:

- Providing technical-economic consultancy services (e.g. Consultancy for line-substation projects etc);
- Participating to bids for implementation of various projects (SCADA, command-control-protections, metering, monitoring electricity quality, security of IT systems etc);
- Elaborating various studies requested by other entities that own, operate and develop high voltage equipment and installations;
- Elaborating investment, opportunity, feasibility studies, solution studies for connections to the transmission and distribution installations etc.;
- Providing check-ups of equipment and installations specific to electricity networks, making measurements, elaborating analyses and energy balances, providing consultancy and technical assistance services to the construction, commissioning, operation and maintenance of electric equipment and installations;
- Making measurements in the domain of electricity quality, quality analysis and proposing measures to improve and observe standardised limits, for the physical quality parameters of electricity;
- Elaborating documentations for public procurement;
- Management of projects similar to those implemented in Transelectrica;
- Making tests, measurements and verifications of generating installations from WPP-s in view of certifying their compliance with technical requirements provided in regulations for their connection to electricity transmission and distribution networks;



- Elaborating regulations, technical norms and standards in the domain of high voltage electric installations;
- Contracting solution studies for applicants' connection to electric networks of public interest according to Law 13/2007; Connection regulation approved by GD 90/2008; Regulation determining connection solutions, GD 129/2008;
- Technical consultancy and project management for the connection of applicants to the RET or to the RED;
- Preliminary consultancy and contracting the co-existence studies for locations vacating/relocating the OHL in order to comply with co-existence conditions according to the methodology to issue location endorsements, approved by Order 48/2008 of ANRE;
- Taking over and coordinating the work on connection fee and in order to vacate the locations/relocate OHL in order to comply with co-existence conditions according to the methodology to issue location endorsements, approved by Order 48/2008 of ANRE;
- Elaborating design topics in order to make the connection fee work;
- Technical expertise for electric installations;
- Elaborating technical specifications for equipment and materials used in work executed in electric installations;
- Checking the documentation, technical assistance and participation to commissioning tests for dispatchable WPP-s connection to the RET and RED in accordance with the provisions for the Technical Code of RET, Technical requirements for WPP connection according to Order 51/2009 of ANRE and the ATR;
- Consultancy and technical assistance to establish solutions for WPP integration in the metering outline, according to the Electricity metering code, approved by Order 17/2004 of ANRE;
- Monitoring electricity quality in the Common Coupling Point according to applicable technical regulations;
- Consultancy and assistance to determine the data and technical conditions in order to provide data exchange between Transelectrica and RET users (and dispatchable RED ones) with a view to provide monitoring and operative management of SEN and integration into Transelectrica's SCADA and tele-communication system;
- Analysis of documentation, technical assistance and participation to tests checking the technical characteristics of generating units upon commissioning and in operation, according to the RET Technical Code
- Consultancy and training to execute documentations necessary in order to obtain the electricity supply licence;
- Personnel training and education for WPP operation (operation, protection control, dispatching, metering etc.);
- Preparing the documentation and contracting work under public-private partnership;
- Participating to standardisation of equipment and materials;
- Audit of equipment, material and service suppliers.

## 10. European projects

### 10.1. Implementation of the single European electricity market

#### Regional projects of electricity markets coupling and implicit allocation of cross-border transmission capacity

The challenges Europe is facing in the energy sector include aspects such as increased dependence on imports, limited diversification, high level and volatility of energy prices, increased energy demand worldwide, security risks impacting the generating and transit countries, increasing threats caused by climatic changes, slow progress of energy efficiency, challenges resulting from the ever increasing renewable share, as well as from the need for higher transparency, better integration and interconnection on energy markets.

To cope with such problems Europe needs a clearer strategy in the energy domain, which should be centred on a set of measures meant to provide implementation of an integrated electricity market and to achieve the 3 main objectives:

- Security of supply
- Competitiveness
- Sustainability

Emphasis is placed on completing the pan-European power market, consolidating the coordination of national policies, removing market barriers and energy isolation, lowering the energy price for consumers, upgrading the infrastructure and drawing investments in the energy sector, focusing on innovative technologies and generation capacities for green energy.

Achieving a fully functional pan-European energy market is fundamental in order to maintain the security of supply, to increase competitiveness and to provide affordable prices to all European consumers.

Security of supply is an essential component of public safety and, consequently, is closely connected with the efficient operation of the internal electricity market and the integration of isolated electricity markets from EU member states.

The target model of the pan-European internal electricity market for the day-ahead horizon provides the price coupling of these markets based on a unique European coupling solution (PCR mechanism - Price Coupling of Regions), with implicit allocation of interconnection capacities and calculating such interconnection capacities using power flows (Flow-Based - FB method).

With a view to constitute a truly integrated electricity market one should continue harmonising the current rules on capacity allocation, congestion management and electricity trade.

In this context *Regulation 1222/2015 setting guidelines for capacity allocation and congestion management* was elaborated and approved, document determining the minimum harmonised norms in order to provide Europe-wide day-ahead and intra-day markets coupling, thus enabling better network utilisation and greater competition, to the benefit of consumers.

For the time being several initiatives are carried out in Europe, which aim at coupling the national / regional markets for daily and intra-daily horizons, into a single European electricity market and at implementing the implicit allocation mechanisms for cross-border transmission capacities while calculating capacity based on power flows or ATC (available transmission capacity).

On 15 November 2016 a Memorandum was signed at Governmental level for Romania's Participation to electricity markets coupling for day-ahead and intra-day horizons, coupling under development at European level for the implementation of the European energy market.

In accordance with Article 2 from *Regulation 1222/2015 setting guidelines for capacity allocation and congestion management* (Definitions), these regions are defined as “Regions of capacity calculations (RCC)”, meaning “geographical area where coordinated capacity calculation is applied”. Consequently a RCC should include a set of borders of the offering zone for which capacity calculations will be coordinated by TSO-s in accordance with the fore-mentioned Regulation.

The proposed configuration of regions calculating cross-border transmission capacities (RCC) for all system borders of the European electricity transmission system is a pan-European dynamic pragmatic approach in the short- and mid-terms, which supports coordination over the borders of bidding zones where the greatest inter-dependence was noticed.

The RCC proposed by the European Transmission and System Operators from ENTSO-E, and approved at ACER level by all regulators in the domain provide an optimum utilization of the European transmission infrastructure. In the defined RCC-s inter-dependences between cross-area capacities can be modelled most accurately and efficiently, while the best level of such cross-area capacity can be offered on the market. RCC-s provide optimisation of cross-area capacity calculations and allocations according to article 3(d) from *Regulation 1222/2015 setting guidelines for capacity allocation and congestion management*, because RCC-s institute coordination within the RCC and between RCC-s.

The nearby figure provides the configuration of the 11 RCC-s proposed by ENTSO-E:

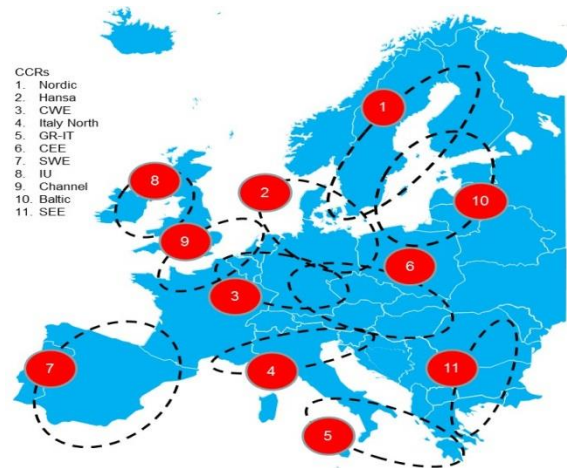


Figure 26: Configuration of RCC-s

In accordance with ACER decision of 17 November 2016, during the pan-European approval of RCC-s European regulators required coupling the central-eastern and central-western European regions into a single one for capacity calculation - the CORE region.

Transelectrica is member of this region (RO-HU border), while also being member in the management and working structures of associated projects under the process establishing the capacity calculation methodologies and later developments in the market coupling and implicit capacity allocation project.

On 16 August 2016 Transelectrica together with the 15 Operators of member states in the CORE region signed a cooperation agreement (CEWE CoA), whereby they express their commitment to cooperate in view of developing a common methodology to calculate interconnection capacities and a future implementation base for the requirements of all network codes in this most important region defined in Europe.

On 31 August 2016, Transelectrica signed an Accession Agreement, by which Romania becomes a part in the market coupling project of the central-east European region NWE-CEE FB MC.

## **RE-SERVE (Renewables in a Stable Electric Grid) project**

European electricity systems are actively involved in finding solutions to use renewable energy sources for system balancing, as sources of system services, with a view to carry out the environmental objectives assumed community-wide.

The topic regarding RES (Renewable Energy Source) integration in the energy system (programme H2020-LCE-2016-2017, subject LCE-07-2016-2017) with budget of 5 million Euro was launched under the European Commission's research - innovation programme. RE-SERVE is included in this programme and intends investigating new concepts of technological system services when renewable energy sources are largely integrated in the power systems and providing new utilisation possibilities of such sources for systems balancing.

The RE-SERVE project drew the attention of valuator from the European Commission by its top interest subject, where the contribution of CNTEE Transelectrica SA is considered very important. Consequently, the company was invited to participate in the project consortium. This project was assessed with 14 points out of the maximum 15, thus getting full finances from European funds.

The project is coordinated by Ericsson GmbH (DE), and consortium members are: TRANSELECTRICA (RO), Romanian Energy Centre (RO), ESB Networks (IE), Flexible Elektrische Netze FEN GmbH (DE), Gridhound UG (DE), Rheinisch-Westfaelische Technische Hochschule Aachen (DE), Polytechnic University of Bucharest (RO), University College Dublin (IE), Waterford Institute of Technology (IE) and the development term is of three years.

CNTEE Transelectrica SA will contribute to WP1, WP2 and WP5 (Work Package) by:

- Identifying two applications for the transition to the scenario in which renewable sources would be used up to 100% to generate electricity, studying the implications of scenarios in the system

architecture and its functionality, taking into account EU's energy policies and the climatic changes (for instance in the SET-Plan);

- Contributions to design and carry out applications in two European countries (IE, RO).

## **European Commission Study regarding the optimum financing schemes for Projects of common interest – PCI**

At European Union level during implementation of the single European electricity market, the need was identified to substantially upgrade the transmission system in the next 10 years, in order to provide security of electricity supply to European consumers.

In this context, the Projects of Common Interest (PCI) have a key role in achieving a modern energy infrastructure. An investment volume of 200 billion Euros was estimated as necessary in order to achieve this objective.

To facilitate these projects the European Commission decided to provide support to Transmission and System Operators and to this effect launched a study to find optimum financing schemes (financial instruments were examined on the capital and the monetary market) tailored to the specific sector.

The consulting company Roland Berger made the study, and determined a set of criteria to select project participants, namely- investment volume estimated for the next 10 years; experience with the utilisation of financial instruments; involvement in PCI issues. Based on such criteria Transelectrica was selected as study participant, together with 3 other European Transmission and System Operators.

## **FutureFlow Designing eTrading Solutions for Electricity Balancing and Redispatching in Europe**

In relation to certain TSO it began participating in the project financed through European funds *FutureFlow Designing eTrading Solutions for Electricity Balancing and Redispatching in Europe*, section *Transmission grid and*

*wholesale market* (ongoing project), which aims to treat a number of aspects of implementation Network Code regarding balancing power systems and creating regional markets for system services with emphasis on involving consumers in balancing process and ensure a optimal management regarding the functioning coordinated synchronously interconnected system, in terms of growth renewable rate energy integrated system.



**Transelectrica®**

# Financial Report

## 11. Stand-alone financial results 2016

In 2016 Transelectrica recorded decrease in the financial profitability compared to 2015, such development being mainly caused by diminished average tariffs approved by ANRE for transmission services.

The factors that determined such development were:

- 10.4% decrease of transmission revenues, especially in the second half-year 2016, caused by the negative correction applied by ANRE to the Company beginning with 1 July 2016 (mainly to compensate the excess billed volume in the previous year).
- 19.5% decreased revenues obtained from the allocation of interconnection capacities.

In 2016 bid prices from the auction sessions on the Serbian, Hungarian and Bulgarian borders were smaller in comparison with 2015, which determined diminished revenues from the allocation of interconnection capacities.

- Increased operational costs of profit allowed activities (+2.29% excluding amortisement). The most important growths were registered for personnel expenses: augmented social expenses within the deductible 4.9% limit applied to the value of personnel salary expenses (as per Law 227/2015); higher expenses with holiday tickets given to employees (distributed as of August 2016); higher expenses associated to mandate contracts; recording expenses with the unit's contribution to facultative pension funds (pilon III) for Company employees that individually adhered to a facultative pension fund (2015 expenses with the unit's contribution to facultative pension funds began in December) and other costs including impairments for current assets, provisions etc.
- Higher volume of electricity transmitted in the Electricity Transmission Grid, the quantity the Company billed being 2.0% higher than in the previous year against increased domestic consumption.

Thus EBITDA of profit allowed activities decreased ▼21%, to 587 mill Lei from 743 mill

Lei. At the same time, zero-profit activities (technological system services) registered 88 mill Lei profit on 31.12.2016 compared to 24 mill Lei profit recorded on 31.12.2015.

According to Order 27/2016 of ANRE on 1 July 2016 the tariffs were changed for transmission services and system services as well as zone transmission tariffs.

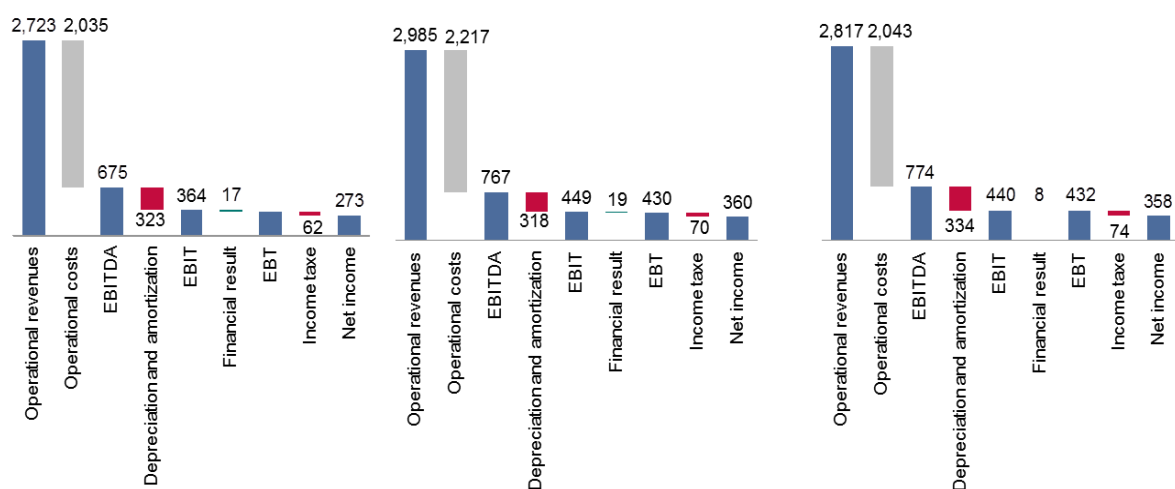
The decrease in the average transmission tariff beginning with 1 July 2016 was determined by ex-post annual corrections, namely the preliminary correction of the second tariff year (July 2015-June 2016) and the final correction for the first half-year 2014 (January 2014-June 2014), as well as by the adjustment of certain parameters for the third regulatory period, initially set on 1 July 2014.

Also certain multi-annual coordinates of the 5 years were subjected to interinary review (investment plan, opening balance of RAB, controllable and uncontrollable OPEX, efficiency factor, electricity quantity that can be billed). The regulator's review of parameters initially set at the beginning of the regulatory period meant to re-align the assumptions used in tariff calculation to the actual values the Company recorded and to increase predictability.

The main factors that determined reducing the net financial loss compared to 2016 were:

- In 2016 financial revenues registered 18.13 mill Lei reduction compared to 2015, mainly determined by reduced interest revenues cashed for monetary availability in bank accounts/deposits (NBR reduced the monetary policy interest) and by diminished dividends collected from Company subsidiaries.
- In 2016 financial expenses decreased 19.94 mill Lei compared to 2015, mainly determined by the national currency's course against the currencies loans are contracted in for investments.

Figure 27: Net result (mill Lei)



### 11.1. Stand-alone profit and loss account

Table 25: Stand-alone profit and loss account

Mill Lei	2016	2015	2014	16/15
Billed volume of energy (TWh)	53,52	52,47	51,34	▲ 2%
<b>PROFIT ALLOWED ACTIVITIES</b>				
<b>Operational revenues</b>	<b>1,260</b>	<b>1,400</b>	<b>1,447</b>	<b>▼ 10%</b>
Transmission	1,146	1,285	1,309	
Functional system services	68	69	84	
Other revenues	46	46	54	
<b>Operational expenses</b>	<b>-672</b>	<b>-657</b>	<b>-687</b>	<b>▲ 2%</b>
System operation costs	-231	-232	-238	
Maintenance and repairs	-88	-89	-94	
Personnel	-212	-186	-188	
Other costs	-141	-150	-166	
<b>EBITDA</b>	<b>587</b>	<b>743</b>	<b>760</b>	<b>▼ 21%</b>
Amortization	-323	-318	-334	
<b>EBIT</b>	<b>264</b>	<b>424</b>	<b>426</b>	<b>▼ 38%</b>
<b>ZERO PROFIT ACTIVITIES</b>				
<b>Operational revenues</b>	<b>1,463</b>	<b>1,585</b>	<b>1,371</b>	<b>▼ 8%</b>
Technological system services	649	662	667	
Balancing market	814	923	703	
<b>Operational expenses</b>	<b>-1,375</b>	<b>-1,561</b>	<b>-1,357</b>	<b>▼ 12%</b>
Technological system services	-561	-638	-653	
Balancing market	-814	-923	-703	



Mill Lei	2016	2015	2014	16/15
<b>EBIT</b>	<b>88</b>	<b>24</b>	<b>14</b>	<b>▲260%</b>
<b>ALL ACTIVITIES (PROFIT ALLOWED and ZERO-PROFIT)</b>				
Operational revenues	2,723	2,985	2,817	▼ 9%
Operational expenses	-2,048	-2,217	-2,043	▼ 8%
<b>EBITDA</b>	<b>675</b>	<b>767</b>	<b>774</b>	<b>▼10%</b>
Amortisement	-323	-318	-334	
<b>EBIT</b>	<b>352</b>	<b>449</b>	<b>440</b>	<b>▼19%</b>
Financial result	-17	-19	-8	
<b>EBT</b>	<b>335</b>	<b>430</b>	<b>432</b>	<b>▼19%</b>
Income tax	-62	-70	-74	
<b>Net profit</b>	<b>273</b>	<b>360</b>	<b>358</b>	<b>▼21%</b>
Net profit per share	3,72	4,91	4,88	

### 11.1.1 Profit allowed activities

Revenues from profit allowed activities are mainly represented by **electricity transmission** and **functional system services**. The regulatory framework applicable to these two activities provides the premises of financial profitability that can be obtained from

the capital invested in these assets, by including tariff components meant to remunerate the financiers, calculated using a regulated rate of return to the regulated asset base.

Table 26: Revenues from profit allowed activities

Mill Lei	2016	2015	2014	16/15
<b>Operational revenues</b>	<b>1,260</b>	<b>1,400</b>	<b>1,447</b>	<b>▼10%</b>
<b>Transmission</b>	<b>1,146</b>	<b>1,285</b>	<b>1,309</b>	<b>▼11%</b>
Revenues from transmission tariffs	1,057	1,174	1,224	▼10%
Revenues from allocation of interconnection capacity	82	102	78	▼20%
Revenues from reactive energy	8	8	7	▼11%
Inter TSO Compensation (ITC) revenues	0	0	0	
<b>Functional system services</b>	<b>67</b>	<b>69</b>	<b>84</b>	<b>▼2%</b>
Revenues from functional system service tariffs	69	68	81	▼3%
Revenues with unplanned DAM exchanges	1	1	3	▲13%
<b>Other revenues</b>	<b>46</b>	<b>46</b>	<b>54</b>	<b>▲2%</b>

Seeing the electricity quantity delivered to consumers increased 2.0% in 2016 compared to 2015, revenues from transmission services and functional system services decreased 9.63%, namely 120 mill Lei, mainly determined

by the negative tariff adjustments beginning with 1 July 2016.

Thus revenues from transmission activities recorded about 10.04% decrease in 2016, from 1,174 mill Lei in 2015 to 1,057 mill Lei, against

the background of the negative 10.82% (18.70 Lei/MWh) adjustment of the average tariff beginning with 1 July 2016.

Revenues from interconnection capacities allocation recorded significant -19.51% drop, because electricity export decreased on the markets neighbouring the SEN.

On 19 November 2014 the establishment of the regional energy exchange by Romania, Hungary, Czech and Slovakia means these four countries should reach to a same electricity price for the volumes transacted on spot markets. Capacity allocation between Romania and Hungary, the only one of the 3 countries Romania has border with, is performed by the transmission operators: Transelectrica and MAVIR using a common mechanism based on a bilateral agreement.

Beginning with 2016 the UIOSI ("Use It Or Sell It") principle was implemented, according to which traders notifying a smaller capacity than that gained under annual and/or monthly bids organised by Transelectrica, their capacity difference which was not notified will be sold at daily bids. Transelectrica will remunerate the trader for the unused capacity, calculated as product between the (i) difference between the capacity gained in the long run and the notified capacity and (ii) the price obtained at the daily bids. On the Hungarian border the sense is reversed, meaning that MAVIR remunerates the participants for unused capacities.

The Company has the use of revenues obtained from allocations of transmission capacities on interconnection lines in accordance with the provisionis of article 22, par (4) from Order 53/19.07.2013 of ANRE approving the Methodology establishing tariffs of electricity transmission services and the provisions of article 16, par (6) from Regulation EC 714/ 2009. Revenues obtained from interconnection allocation will be used to maintain and/or to increase interconnection capacities by network investments, especially into new cross-border interconnections.

Revenues from functional system services also decreased 2.68% in 2016, from 68 mill Lei in 2015 to 66 mill Lei, against the background of reduced average tariff applied in 01 July 2015 – 30 June 2016, from 1.42 Lei/MWh to 1.17 Lei/MWh (-17.6%).

Other revenues related to transmission services (reactive energy, international transit) were maintained at levels near the ones registered last year.

Figure 28: Revenues from profit allowed activities (mill Lei)

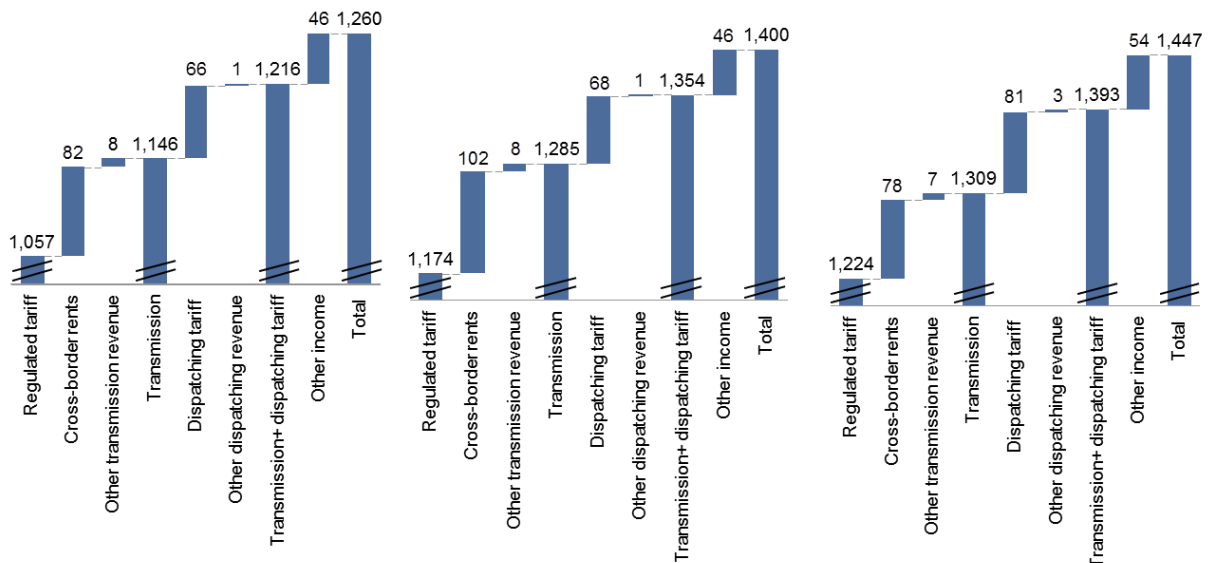


Table 27: Expenses from profit allowed activities

Mill Lei	2016	2015	2014	16/15
<b>Operational expenses</b>	<b>672</b>	<b>657</b>	<b>687</b>	▼ 2%
<b>System operation costs</b>	<b>231</b>	<b>232</b>	<b>238</b>	▼ 0%
Expenses regarding technological consumption	183	187	190	▼ 2%
Congestion expenses	3	1	0	▲ 200%
Expenses with electricity consumption in RET substations	15	14	16	▲ 7%
Expenses regarding functional system services	13	12	11	▲ 8%
ITC (Inter TSO Compensation) expenses	17	18	21	▼ 6%
Administration expenses OPCOM	0	0	0	
<b>Maintenance and repairs</b>	<b>88</b>	<b>89</b>	<b>94</b>	▼ 1%
<b>Personnel</b>	<b>212</b>	<b>186</b>	<b>188</b>	▲ 14%
<b>Other costs</b>	<b>141</b>	<b>150</b>	<b>166</b>	▼ 6%
<b>Amortization</b>	<b>323</b>	<b>318</b>	<b>334</b>	▲ 2%
<b>Operational expenses with amortization</b>	<b>995</b>	<b>975</b>	<b>1.020</b>	▲ 2%

Total operational expenses (amortisation included) of 2016 increased 2% compared to the same period last year (995 mill Lei from 975 mill Lei).

**System operation costs**

They decreased 0.4% in 2016 compared to 2015 from 232 mill Lei to 231 mill Lei mainly because CPT expenses were reduced.

The total cost to procure electricity required in order to cover the technological consumption dropped 2.15% in 2016 compared to 2015. The determining factor of such drop in the 2016 total cost was the decreased average unit cost of energy procurement transactions on the markets, from 181.37 Lei/MWh in 2015 to 180.65 Lei/MWh and the reduced quantity of technological losses from 1,030 GWh to 1,010 GWh in absolute value.

Average prices with which Transelectrica procured energy for its own technological consumption registered 1.14% decrease in 2016 compared to 2015 for procurements on the Centralised Bilateral Contracts Market ("PCCB"), while the spot market DAM registered 2.16% increase and the balancing market: 0.42% growth.

Figure 29: Procuring mix depending on the quantities purchased from markets (MWh)

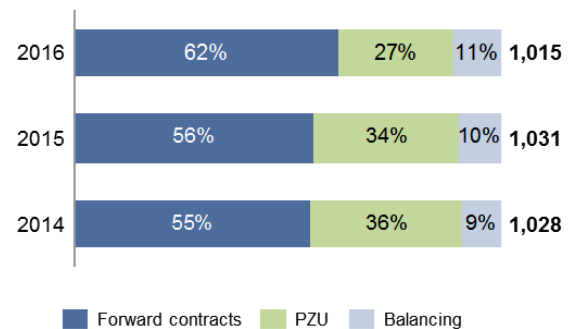


Figure 30: Physical losses (GWh)

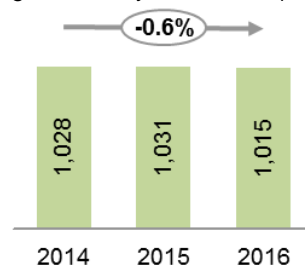
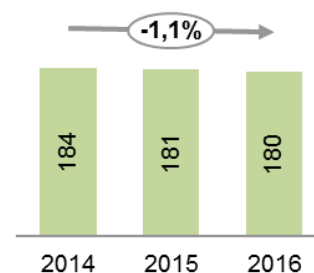


Figure 31: Average unit price of energy procured for CPT (Lei)



**Congestions**

Congestions (network restrictions) mean electricity transmission demands over the technical operational limits of the network, corrections being necessary to apply by the transmission and system operator as they occur when the power flow between two system nodes or areas exceed the safe operational parameters of the system, upon operational scheduling or even in real time.

Congestions are managed by changing the network topology and, as a last resort, by re-dispatching the electricity output. Output re-dispatch leads to disrupting the merit order resulting on the Balancing Market, and additional costs are borne by Transelectrica. This is the measure applied by Transelectrica only when circumstances require maintaining the safe operation of the transmission system.

In 2016 congestion value increased 2 mill Lei over the 2015 value (1 mill Lei), because of the extreme meteorological conditions of January 2016 in Dobrogea.

**Expenses regarding functional system services**

These expenses represent uncontracted international exchanges of electricity with neighbouring countries and expenses with unplanned exchanges on the day-ahead market (DAM).

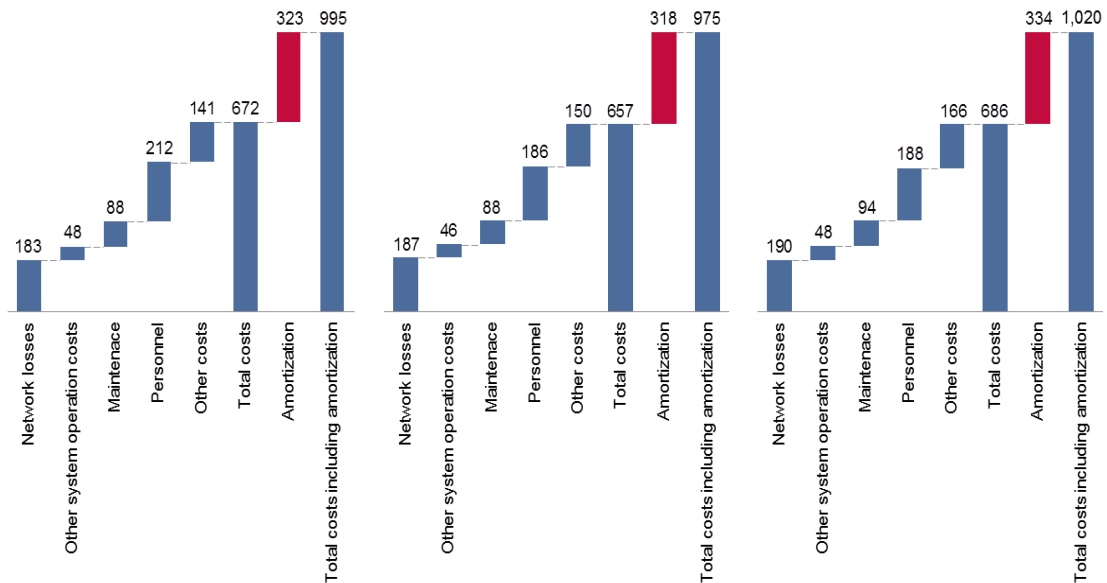
The about 4% increase of expenses regarding functional system service was determined by higher values of electricity flows coming from unplanned exchanges with neighbouring countries (unplanned exports/imports).

**Maintenance and repairs**

Maintenance expenses decreased 1.12% in 2016 (from 89 mill Lei in 2015 to 88 mill Lei) without impacting the safe operation of the SEN.

The 2016 annual maintenance programme placed emphasis on work / services leading to higher operational safety of installations, completing the contracting work/services and those contributing to good operation of installations. One should also take into account the future implementation of the remote control and supervision of electric installations, which requires rehabilitation of electric equipment; in turn, this will lead to reduced personnel and operational expenses.

Figure 32: Expenses from profit allowed activities (mill Lei)



### 11.1.2 Zero-profit activities

Table 28: Synthesis of revenues from zero-profit activities, 2014 – 2016

Mill Lei	2016	2015	2014	16/15
<b>Operational revenues</b>	<b>1,463</b>	<b>1,585</b>	<b>1,371</b>	<b>▼ 8%</b>
Technological system services	649	662	667	▼ 2%
Balancing market	814	923	703	▼ 12%

In 2016 revenues from technological system services decreased 13 mill Lei in comparison with 2015 because of reduced tariffs applicable to such services beginning with 01 July 2015 but also due to proper administration of system services under safe SEN operation.

In 2016 revenues from the balancing market decreased 109 mill Lei compared to 2015, determined by:

- Increased number of generating units from renewable sources and implicitly their higher share in the total installed capacity,

influencing the imbalances of the balancing market since assumed contracts are not executed;

- Imbalance notifications from green energy producers caused by their specific generation type;
- The behaviour of participants on this market by notifying imbalances, which lead to greater size of the balancing market;
- The extreme drought that led to impossible system balancing by electricity generated from hydro sources.

Table 29: Synthesis of expenses from zero-profit activities, 2013 - 2016

Mill lei	2016	2015	2014	16/15
<b>Operational expenses</b>	<b>1,375</b>	<b>1,561</b>	<b>1,357</b>	<b>▼ 12%</b>
Technological system services	561	638	653	▼ 12%
Balancing market	814	923	703	▼ 22%

In 2016 expenses with technological system services decreased 77 mill Lei compared to 2015.

The Company procures technological system services from producers with a view to provide safe operational level of SEN and qualitative electricity transmitted at parameters set in applicable technical norms. Such services are contracted as follows:

- Under regulated regime based on Governmental and ANRE decisions;
- By means of competitive mechanisms.
- In accordance with the provisions of GD 138/08.04.2013 on measures to be taken in view of safe electricity supply, the Company procured technological system services according to the regulations issued by the National Regulatory Authority in Energy (ANRE), as follows:

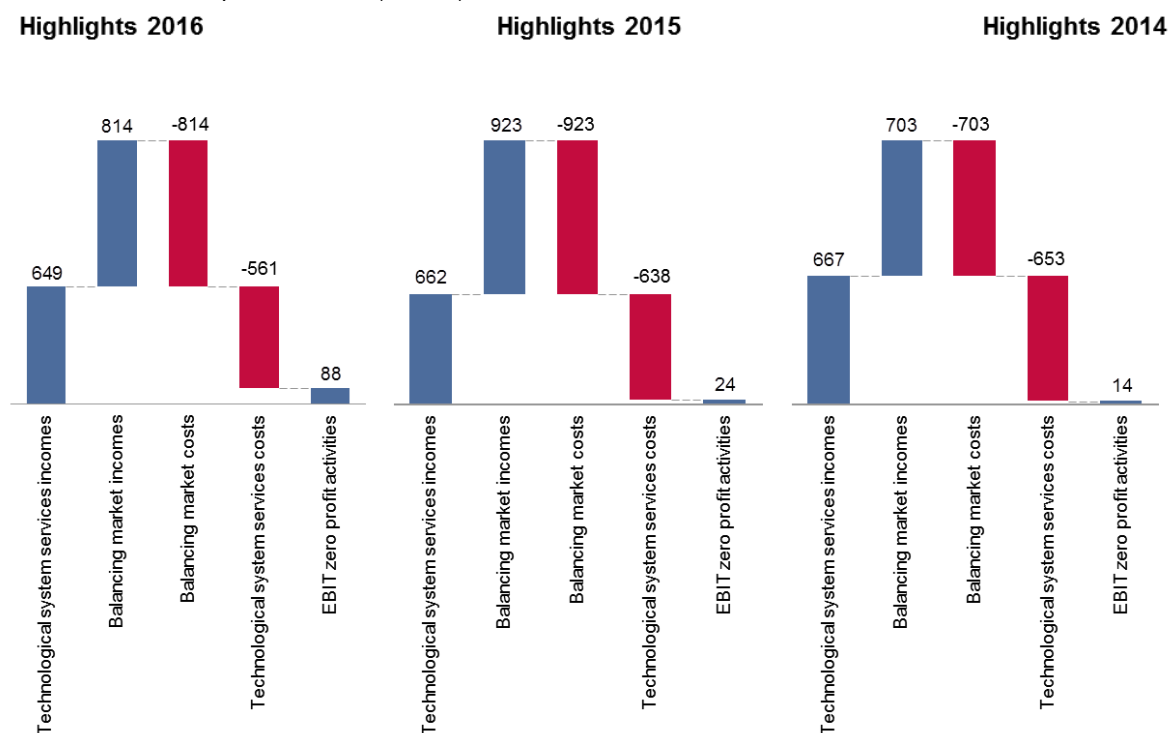
- From SC Energy Complex Hunedoara SA, for at least 400 MW electricity from 15 April 2013 to 1 July 2015. According to GD 941/29.10.2014, the term set to apply GD 138/2013 has been prorogated by 31 December 2017;
- From SC Energy Complex Oltenia SA, for at least 600 MW from 15 April 2013 to 1 July 2015.
- in 1 January – 31 March 2016 technological system services (slow tertiary reserve) were procured under regulated regime, according to the provisions of GD 1019/30.12.2015 approving the “Winter schedule to provide safe stable operation of the SEN”.

Transelectrica is re-invoicing the value of technological system services procured from producers to electricity suppliers, licensed by ANRE that further pass this cost in the invoice

of end consumers, as they finally benefit of these services.

Balancing market expenses result from transactions made on this market, being fully covered by revenues from the balancing market.

Figure 33: Results of zero-profit activities (mill Lei)



## 11.2. Financial result

The increase of net result with respect to exchange rate differences by 6,914,874 Lei in 2016 compared to 2015 has been influenced by the national currency's development against the foreign currencies the Company has contracted bank loans in, to finance its investment programmes (Euro, Dollar, Japanese Yen).

The net financial result (loss) the Company registered on 31 December 2016 was

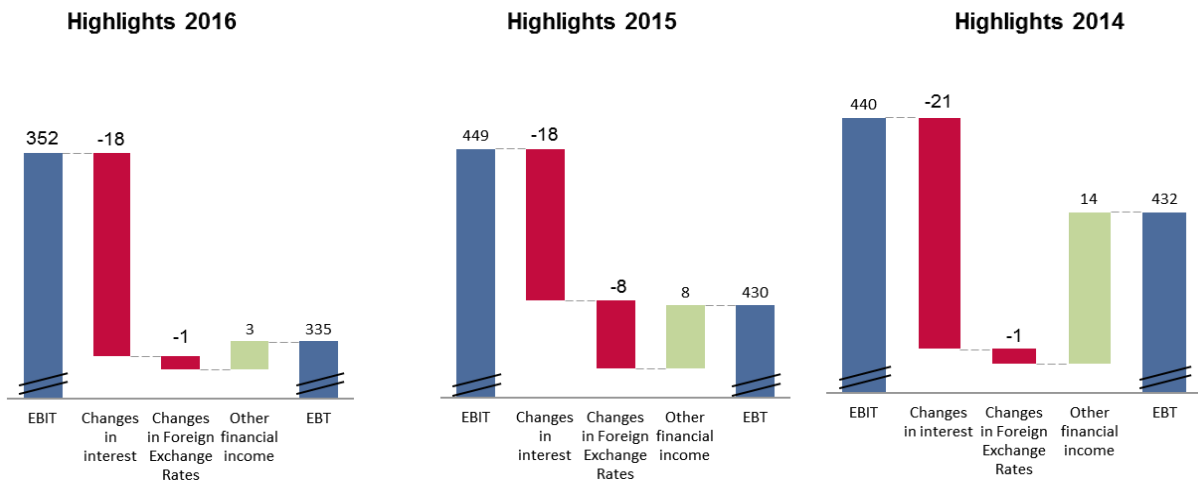
1,804,055 Lei higher than in 2015, being influenced by diminished financial expenses against the background of reduced financial revenues following diminished dividends received from subsidiaries OPCOM and TELETRANS.

Therefore the net financial result (loss) the Company registered on 31 December 2016 was 1.8 mill Lei lower than that of 2015.

Table 30: Development of the foreign exchange rate

Lei	31-Dec-16	31-Dec-15	31-Dec-14	16/15
1 EUR	4.5411	4.5245	4.4821	▲ 0.4%
1 USD	4.3033	4.1477	3.6868	▲ 3.8%
100 JPY	3.6834	3.4453	3.0866	▲ 7.0%

Figure 34: Financial results (mill Lei)



### 11.3. Balance – financial position

Mill Lei	2016	2015	2014	16/15
			retreated	
<b>Non-current assets</b>				
Property, plant and equipment	3,190	3,341	3,388	▼ 5%
Intangible assets	14	35	40	▼ 60%
Financial assets	78	56	57	▲ 39%
Non-current trade receivables	10			
<b>Total</b>	<b>3,292</b>	<b>3,432</b>	<b>3,484</b>	▼ 4%
<b>Current assets</b>				
Inventories	30	34	36	▼ 12%
Trade and other receivables	852	723	1,056	▲ 18%
Other financial assets	135	70	149	▲ 93%
Cash and cash equivalents	934	974	716	▼ 4%
<b>Total</b>	<b>1,951</b>	<b>1,802</b>	<b>1,957</b>	▲ 8%
<b>TOTAL ASSETS</b>	<b>5,243</b>	<b>5,234</b>	<b>5,441</b>	▲ 0%
<b>Shareholders' equities</b>				
Share capital	733	733	733	▼ 0%
Retained earnings	1,602	1,488	1,313	▲ 8%
Reserves	773	809	767	▼ 4%
<b>Total</b>	<b>3,108</b>	<b>3,029</b>	<b>2,813</b>	▲ 3%
<b>Long term liabilities</b>				
Borrowings	502	635	792	▼ 21%
Other liabilities	503	532	610	▼ 5%
<b>Total</b>	<b>1,005</b>	<b>1,167</b>	<b>1,402</b>	▼ 14%
<b>Short term liabilities</b>				

Borrowings	138	167	201	▼ 17%
Commercial liabilities	874	776	946	▲ 13%
Other liabilities	118	95	80	▲ 24%
<b>Total</b>	<b>1,130</b>	<b>1,038</b>	<b>1,226</b>	<b>▲ 9%</b>
<b>Total liabilities</b>	<b>2,135</b>	<b>2,205</b>	<b>2,628</b>	<b>▼ 3%</b>
<b>EQUITIES AND LIABILITIES</b>	<b>5,243</b>	<b>5,234</b>	<b>5,441</b>	<b>▲ 0%</b>

## Assets

**Non-current assets** registered about 4.1% decrease at the end of 2016, mainly after registering the amortisement of property, plant and equipment and of intangible assets. In July 2016 the contribution in kind of CNTEE Transelectrica SA was registered to the share capital of Subsidiary SC OPCOM SA for the 'Commercial exchange of electricity OPCOM' and the 'Regional electricity exchange OPCOM' financed from IBRD funds, according to AGEA Decision 6/15.06.2016 of SC OPCOM SA and the Certificate recording mentions of 11.07.2016, amounting to 22.6 mill Lei.

**Current assets** registered 8.3% increase in 2016 (1,951 mill Lei) compared to the value recorded on 31 December 2016 (1,802 mill Lei), determined by 17,8% increased receivables, while cash decreased 4.1%.

The clients under the bonus type support scheme for high efficiency cogeneration registered 6.3% increase on 31 December 2016, mainly determined by their failure to pay on due dates the contribution for high efficiency cogeneration, as owed by electricity suppliers.

From 01 January to 31 December 2016 the Company collected 11.8 mill Lei representing overcompensation for 2014, of which 5.0 mill Lei proceeds by bank transactions, and proceeds based on compensations made through the Institute of Management and IT (as per GD 685/1999) amounting to 6.8 mill Lei from Electrocentrale Oradea and SC Termo Calor SA.

Also in 01 January – 31 December 2016 Transelectrica collected 99.3 mill Lei representing undue bonus and overcompensation for 2015, of which 12.7 mill Lei proceeds from bank transactions and other

proceeds based on compensations made through the Institute of Management and IT (as per GD 685/1999) amounting to 86.6 mill Lei, mainly from SC Electrocentrale Bucharest SA, Energy Complex Oltenia, Enet, CET Grivita, Veolia Prahova, Veolia Iasi, Electrocentrale Oradea, CET Arad and Termo Calor SA.

On 31 Decembrie 2016 the Company recorded trade receivables represented by invoices issued under the bonus type support scheme to promote high efficiency cogeneration, as follows:

- 2011-2013 overcompensation amounting to 76.7 mill Lei, from RAAN – 63.5 mill Lei and CET Govora SA – 13.2 mill Lei;
- 2014 overcompensation and undue bonus amounting to 5.3 mill Lei, from Electrocentrale Oradea – 1.4 mill Lei, RAAN – 2 mill Lei and CET Govora – 1.9 mill Lei;
- 2015 overcompensation in sum of 13.2 mill Lei from Electrocentrale Oradea;
- 2015 undue bonus in sum of 0.6 mill Lei mainly from CET Govora;
- Uncollected contribution from electricity consumer suppliers, outstanding on 31 December 2015 in sum of 27.8 mill Lei, namely from Transenergo Com – 4.7 mill Lei, Enel Energie – 4.7 mill Lei, Enel Energie Muntenia – 4.6 thousand Lei, PetProd – 4.4 mill Lei, Romenergy Industry – 2.7 mill Lei, RAAN- 2.4 mill Lei, UGM Energy – 1.8 mill Lei and others.

To settle trade receivables generated by the 2011-2013 overcompensation the Company requested producers to make mutual compensations. RAAN did not agree with this



mode of extinguishing mutual receivables and liabilities and the Company has applied and further applies the provisions of article 17 par 5 from Order 116/2013 of ANRE president approving the Regulation determining collection of the contribution for high efficiency cogeneration and paying the bonus for electricity generated by 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 from payment the amounts of the respective support scheme.

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

In accordance with this Convention the Company's trade receivables from CET Govora SA were compensated with CET Govora's liabilities, represented by 40.5 mill Lei cogeneration bonus of May 2014 – October 2015 withheld by applying the provisions of article 17 par 5 from Order 116/2013 of ANRE president and the Convention provisions.

Civil sentence 3185/27.11.2015 suspended ANRE decision 738/28.03.2014 determining the amount of the 2011 – 2013 overcompensation, therefore CET Govora SA did no longer observe the Convention provisions.

Beginning with 9 May 2016 the general insolvency procedure was instituted against CET Govora. The Company intended recovering the receivables generated before initiation of such insolvency procedure and consequently followed the specific proceedings

provided by Law 85/2014 on insolvency and requested court admission of its receivables according to 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 president approving the Regulation that determined the collection of the contribution for high efficiency cogeneration and paying the bonus for electricity generated by high efficiency cogeneration and has been paying monthly the cogeneration bonus to CET Govora.

Civil settlement 2430/05.10.2016 of the High Court of Justice and Cassation admitted ANRE's filed appeal against Civil sentence 3185/27.11.2015, partly cancelled the sentence appealed against and denied the suspension request of CET Govora, such decision being final. Therefore beginning with 05.10.2016 the effects of ANRE decision 738/28.03.2014 are no longer suspended and produce full effects.

Under such circumstances the Company applies the provisions of article 17 par 5 from ANRE Order 116/ 2013 for mutual liabilities and receivables produced after the insolvency procedure, meaning withholding the bonus owed to CET Govora SA until concurrence of the amounts of the support scheme unpaid to the Company.

In September 2016 CNTEE Transelectrica SA concluded with SC Termoficare Oradea a contract to take over the liability of SC Electrocentrale Oradea representing 2014 & 2015 overcompensation. The liability assumed amounting to 29,259,377 was scheduled into 24 monthly instalments (31.10.2016-30.09.2018), and the sum of 9,774,959 was reclassified under non-current liabilities, with maturity beyond 1 year.

On 31 December 2016 the Company recorded trade receivables from the bonus type support scheme for high efficiency cogeneration of about 21% from total commercial receivables (in 2015 - 25%).

In 2016 the cumulated development of all Company monetary availabilities grew 25 mill

Lei (+2.4%), from 1,044 mill Lei in 2015 to 1,069 mill Lei.

### Shareholders' equities and liabilities

**Long-term liabilities** registered 13.9% decrease in 2016, after repayments made as per maturities and covenants (from 635 mill Lei on 31 December 2015 to 502 mill Lei on 31 Decembrie 2016) of contracted loans.

At the same time **short-term liabilities** registered about 8.9% increase on 31 December 2016. Such increase was mainly determined by:

- higher liabilities to suppliers on the balancing market determined by the volume of transactions on the balancing market in December 2016 compared to December 2015, determining increase of liabilities to suppliers on this market on balance on 31 December 2016 compared to 31 December 2015;
- higher support scheme liabilities to suppliers (producers) determined by withheld cogeneration bonus and the ex-ante overcompensation owed to producers, into the account of the Company's uncollected receivables from the same support scheme producers, representing the 2011-2013 overcompensation for which the Company applied the provisions of article 17 par 5 from Order 116/2013 of ANRE president.
- reduced liabilities to the suppliers of operational activities were determined by:
  - Diminished procurement price of electricity required in order to cover the technological consumption (CPT);
  - Paying the payment obligations on balance on 31 December 2015.

### Equities

Equities increased 2.6% due to the 17.2% growth of the legal reserve and the 7.7% increase of retained earnings, because the amount of 78 mill Lei from the profit obtained on 31 December 2016 was distributed to "Other reserves", as follows:

- The amount of 50.6 mill Lei represents distribution of 2016 net revenues from the allocation of interconnection capacities according to Regulation (EC) 714/2009 and ANRE Order 53/2013;
- The amount of 27.5 mill Lei represents the distribution to reserves of the profit which benefitted of profit tax exemption, less the part related to the legal reserve, according to the provisions of article 22 from Law 227/2015 regarding the Fiscal code.

## 11.4. Cash flow

Table 31: Cash flows

Mill Lei	2016	2015	2014	16/15
<b>Operational activities</b>				
Cash flow before changes in working capital	725	808	822	▼10%
Changes in the working capital	-119	83	67	▲243%
Interest and tax paid	-91	-86	-116	▲6%
<b>Net cash from operational activities</b>	<b>515</b>	<b>805</b>	<b>774</b>	<b>▲36%</b>
<b>Investments activities</b>				
Procurements of porperty, plant & equipment and of intangible assets	-142	-243	-187	▼42%
Cash from investments activities	8	19	27	▼58%
Other financial assets	65	79	-149	▼18%
<b>Cash used in investments activities</b>	<b>-199</b>	<b>-145</b>	<b>-309</b>	<b>▼37%</b>
<b>Financing activities</b>				
Net (repayments)/proceeds from borrowings and bonds issuance	-163	-197	-185	▼17%
Dividends paid	-194	-205	-165	▼5%
<b>Cash used in financing activities</b>	<b>-357</b>	<b>-402</b>	<b>-349</b>	<b>▼11%</b>
<b>Net decreased of cash and cash equivalentents</b>	<b>(41)</b>	<b>258</b>	<b>116</b>	<b>▼116%</b>
<b>Cash and cash equivalentents on 1 January</b>	<b>974</b>	<b>716</b>	<b>601</b>	<b>▲36%</b>
<b>Cash and cash equivalentents at year end</b>	<b>934</b>	<b>974</b>	<b>716</b>	<b>▼4%</b>

## 11.5. Indicators

Table 32: Indicators of profitability, liquidity, risk and activity

Indicator [Lei]	Calculation formula	2015	2015	2014
<b>Profitability indicator</b>				
a) EBITDA in total sales	$\frac{\text{EBITDA}}{\text{Turnover}}$	0.56	0.57	0.56
b) EBITDA in equities	$\frac{\text{EBITDA}}{\text{Equities}}$	0.22	0.25	0.28
c) Rate of gross profit	$\frac{\text{Gross profit}}{\text{Turnover}}$	0.28	0.32	0.31
d) Return on equity (ROE)	$\frac{\text{Net profit}}{\text{Equities}}$	0.09	0.12	0.13
<b>Liquidity indicator</b>				
a) Current liquidity indicator	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.73	1.74	1.60
b) Immediate liquidity indicator	$\frac{\text{Current assets}-\text{Inventories}}{\text{Current liabilities}}$	1.70	1.70	1.57
<b>Risk indicator</b>				
a) Leverage indicator	$\frac{\text{Borrowed capital}}{\text{Equities}}$	0.21	0.21	0.28
b) Interest coverage rate	$\frac{\text{EBIT}}{\text{Interest expenses}}$	14.65	15.75	11.72
<b>Activity indicators</b>				
a) Liabilities – clients turnover	$\frac{\text{Average clients balance} \times 365}{\text{Turnover}}$	72.68	61.1	88.9

## 12. Regulated tariffs for electricity transmission

### General framework

The regulatory model of transmission tariffs applied currently in Romania is the revenue cap. This model assumes regulating the total permitted revenue of the transmission market operator and includes among objectives the provision of premises necessary for the efficient operation of transmission services and maintaining the operator's financial validity in order to provide proper remuneration of financiers, while also maintaining the access to financing. The model includes mechanisms stimulating operational efficiency and a financial profitability framework based on control over the investments made by the operator (regulated asset base) as well as regulated rate of return established with the operator's estimated average financing costs.

Electricity transmission services are rated during regulatory periods. Such regulatory periods represent multi-annual cycles of tariff regulation (currently 5 years), during which a tariff calculation methodology<sup>10</sup> is applied and a full set of parameters is used for it, for actual tariff calculations. Tariff parameters are established for multi-annual horizons and confer a higher predictability and visibility of investments, of Transelectrica's operational costs and revenues. Tariffs of a regulatory period are annually reviewed and stay valid for 12 months' intervals since approval date<sup>11</sup> (tariff years).

Differences between the forecasted values and actual values of parameters used in tariff calculations from a particular year are compensated by means of ex-post corrections implemented in the tariff in subsequent years or at the beginning of the immediately

beginning regulatory period. In case of certain specific elements of the regulated cost base which is capped, exceeding the forecasted level of such costs is not compensated. Also in case of certain cost components, savings are partially withheld by Transelectrica.

The set of calculation parameters is approved by ANRE and includes:

- Costs for current operation of the service-controllable and non-controllable operation and maintenance costs, one's own technological consumption, network congestions, costs and revenues associated to the financial compensation mechanism of electricity transits within ENTSO-e;
- Costs of system development- investments planned in the transmission network, the amortisement programme based on regulated service periods, the profitability of invested capital established using a regulated rate of return, applied to the regulated asset base;
- The electricity amount that can be billed.

Transmission tariffs are invoiced using the amounts of active electricity input/taken out the public electric networks on Romanian territory, except for imports/exports.

In accordance with decision 71/2017 of ANRE beginning with January 2017 a simulation process began for the effects of implementing the binome tariff for electricity transmission services. Such simulation period is planned for two years (2017 and 2018), the application calendar having 2019 as target year for actual implementation. The current tariff system is monome, which means relying exclusively on the generated / consumed energy. By means of the binome tariff system the regulated revenue is recoverable by applying two types of tariffs- energy rate and power rate.

Transelectrica charges transmission tariffs for input into public electricity networks (tariff

<sup>10</sup> The methodology applied at present was approved by order 53/2013 of ANRE regarding the methodology establishing tariffs for electricity transmission services

<sup>11</sup> Tariffs can be changed during a tariff year only in cases clearly set in the methodology establishing tariffs for electricity transmission services approved by order 53/2013 of ANRE

component TG) and for take out from public networks (tariff component TL). TG is not applied to the electricity generated by power parks of small installed capacity up to 5 MW. Also, TG is not applied to imported electricity. TL is not applied to exported electricity.

On 1 July 2015 ANRE changed the allocation manner of regulated costs by the two components of the transmission tariff (TG and TL). Such change meant limiting the costs included in the TG to the costs of the technological consumption and the costs associated to removing network congestions. All the other regulated costs were distributed to TL. The change occurred because of Romania's voluntary step to tailor the national regulatory framework with the recommendations provided in Opinion 9/2014 issued by the Agency for Cooperation of Energy Regulators (ACER) regarding transmission tariffs paid by electricity producers in Europe.

The Opinion of ACER points out how important it is to increase the harmonisation degree of transmission tariffs paid by electricity generators, with a view to minimise potential distorted effects caused by different network tariffs paid by generators from different EU countries, in the context of setting the single electricity market Europe-wide.

In Romania the new cost allocation moved the centre of gravity of regulated revenue on the TL tariff, thus the national electricity consumption became the main determining factor in the collection of transmission revenue. In comparison with the situation before implementing this new allocation, characterised by balanced distribution of regulated costs by TG and TL components, which generated similar exposure of revenues to the volumes input in the grid by generators, namely to the volumes taken out of the grid by consumers, so the new allocation manner significantly reduces the exposures of revenues to the electricity output (stimulated by export these last years) and increases accordingly the exposure of revenues to the domestic demand of electricity.

The tariff grid for electricity transmission is at present differentiated by zones, both for input

and for output of electricity into/from networks, depending on the impact such electricity input/output can have over the technological consumption in a certain area of the electricity transmission grid. The amendments made in the Electricity and natural gas law 123/2012 at the end of 2016 provide uniform tariffs by eliminating zone differences, and the network users will pay the same transmission tariff (network input / network output) regardless of their connection point in the network. Such amendments will be implemented in the secondary legislation.

### Tariffs valid in 2016

In June 2016 Romania's Official Gazette 477/27.06.2016 published Order 27/2016 of ANRE approving the average tariff of transmission services, the tariff of system services, the zone tariffs for transmission services and the regulated price of reactive electricity charged by the Company. Consequently the regulated tariffs associated to electricity transmission services and system services applicable as of 1 July 2016 are:

Service	Tariff applicable 1 July 2015 - 30 June 2016	Tariff applicable 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 newly approved tariffs were calculated in accordance with applicable methodologies.

### Transmission tariff

The 10.8% tariff drop mainly mirrors the negative corrections applied by the regulator to compensate differences between the forecasted tariff values taken into tariff calculations in previous years and the actual

registered values (final corrections for 1 July 2014 - 30 June 2015, preliminary corrections for 1 July 2014 - 30 June 2015) according to the applicable methodology.

"Ex-post" corrections contributed 7.2% to tariff reduction. From among the calculation elements that were applied "ex-post" corrections in the calculation of the new approved tariff, the most important are:

- Electricity procurement price to cover the technological consumption;
- Inflation index;
- Utilisation of a part of revenues obtained from allocated interconnection capacity as complementary source for the regulated tariff with a view to cover regulated costs;
- Increasing electricity consumption and export above the level initially forecasted by ANRE when designing the tariff.

Also, besides negative corrections there have been other factors as well that contributed to tariff decrease, such as:

- The indexed inflation index in the calculation of the newly approved tariff (inferior to the inflation index used when calculating the tariff of the previous year), which contributed -2.8% to tariff decrease;
- The basic revenue calculated as sum of regulated costs (inferior to the one calculated for the previous year, given the efficiency requirements set for recognised operational costs) and revenue flattening during the regulatory period, which both contributed jointly to -0.8% tariff decrease.

### Tariff of functional system services

The 11.1% tariff increase was mainly determined by the high negative correction applied to the previous year's tariff compared to the minor negative correction applied in the newly approved tariff, such corrections contributing to +16.2% tariff increase. The recognised costs base in the newly approved tariff is slightly inferior to the recognised costs base in the previous year's tariff, such recognised costs contributing -5.1% to tariff evolution.

### Tariff of technological system services

The 7.9% tariff decrease was determined by:

- The negative correction applied to the newly approved tariff to compensate the profit estimated to be recorded in the 1 July 2015 - 30 June 2016 tariff year, 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 1 July 2015 - 30 June 2016, as necessary to recover some historical losses. Corrections contributed -4.8% to tariff decrease;
- The recognised costs base in the newly approved tariff for power reserves procurement in the tariff year 1 July 2016 - 30 June 2017 is smaller than the recognised costs base of the previous tariff year 1 July 2015 - 30 June 2016, reduction caused on the background of reduced procurement prices of power reserves under bids in the last year. The reduction of recognised costs contributed -3.2% to tariff decrease.

## 13. Litigation

### RAAN

File no. 9089/101/2013/A152 was registered on the docket of Mehedinti Tribunal, Section II Civil of Administrative and Fiscal Disputes, as contestation of the additional Table of receivables against debtor RAAN.

The litigated value of the file is 78,096 thousand Lei. Transelectrica filed appeal against this sentence.

Since the total amount requested by Transelectrica, in quantum of 89,361 thousand Lei, was registered only in part and the judiciary liquidator's letter 4162/03.10.2016 notified only 11,265 thousand Lei was the amount recorded in the additional table as receivables resulting from debtor's continued activity, while the amount of 78,096 thousand Lei was rejected, contestation was submitted to the additional Table of receivables, within the legal term.

The deadline to submit contestations to the receivables produced during the procedure was set on 9 October 2016, and 20 October 2016 was the settlement term for such contestations. The deadline for execution and display of the final consolidated table was also set on 10.11.2016.

The Company filed complaint against the Table. Mehedinti Tribunal approved the accounting expertise proof. The following court hearing date was set on 30.03.2017.

### ANAF

The Company is in dispute with ANAF, which on 20 September 2011 issued a fiscal audit report regarding VAT return in September 2005 – November 2006, for a number of 123 unused invoices detected as missing, these being documents of special regime for which it estimated value added tax collected in amount of 16 mill Lei plus accessories of 27 mill Lei.

The amount of such obligations of 43 mill Lei was retained from the VAT that the Company paid in November 2014. Later on the Company found out the sums transferred as current VAT

were considered for settlement of the amounts from the fore-mentioned fiscal audit report.

Thus the Company was compelled to pay additional penalties of 1 mill Lei for the VAT that should have been paid in November 2011, lest outstanding debts are registered to the State budget. In total the Company paid 44 mill 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 is solved by administrative means. The law court denied the request to suspend enforcing the fiscal report.

On the hearing date of 30.04.2014 the Appeal Court of Bucharest, Section VIII of Administrative and Fiscal Disputes (ruling 1356/2014) pronounced for file 6657/2/2012 the following settlement: "Denies the request of claimant Transelectrica (Contestation against ANAF's administrative fiscal act)". The Company filed appeal against Ruling 1356/2014 and the following hearing date was set on 07.04.2016.

Decision 1945/16.06.2016 admitted the request and restored the recurrent-claimant within the appeal stating term. Denies as groundless the appeal declared by the National Power Grid Company Transelectrica against ruling 1365 of 30 April 2014 of the Bucharest Court of Appeal, Section VIII of administrative and fiscal disputes. Irrevocable. Pronounced at the public hearing of 16 June 2016.

### ANRE

Transelectrica SA filed complaint against Order 51 / 26.06.2014 of ANRE president registered under no. 47714 / 04.08.2014 with ANRE and contestation to the Appeal Court Bucharest, which is under file 4921/2014, requesting either amending the fore-mentioned Order or issuing a new order to recalculate the RRR back at 9.87% (recalculated with ( $\beta$ ) coefficient of 1.0359, according to Transelectrica's internal studies) or, in case such contestation



is denied, it requested using the same 8.52% percentage that ANRE established for 2013 and semester I of I 2014.

On 26.06.2014 Order 51 of ANRE was issued and published in the Official Gazette no. 474/27.06.2014, which approved the average tariff for transmission services, the tariff of 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 president approving the tariff for transmission services, the tariff of system services, the zone tariffs for transmission services and the tariffs for reactive electricity charged by the economic operators from the electricity sector.

The values used in the calculation of the regulated rate of return (RRR<sup>12</sup>) by ANRE according to the Methodology establishing the tariffs for electricity transmission services approved under Order 53 / 2013 of ANRE ("Methodology"), have determined the RRR value of 7.7%.

The Company considers that applying the provisions of article 51 from the Methodology by determining the Beta ( $\beta$ ) parameter at 0.4313 will prejudice the company's finance by decreasing the profitability of electricity transmission with an estimated 138.4 mill Lei<sup>14</sup>, with significant impact over the company's financial interests, which might lead to Company financial instability during the third regulatory period (01.07.2014 - 30.06.2019), thus prejudicing the Company's shareholders and their interests as well.

On the hearing date of 20 November 2015, the law court prorogated the debate on the evidence by specific technical expertise to a later moment, thus providing the parties with the possibility to express conclusions on the possible completion of technical expertise's objective 1 proposed in the speciality financial investments and other security entities. Thus

<sup>12</sup> RRR- Regulated Rate of Return found in specific literature under the acronym WACC – Weighted Average Cost of Capital; the formula of the two indicators is similar:  $RRR = WACC = CCP + Kp/(1 - T) + CCI \times Ki$

<sup>13</sup> Value that determined the RRR drop to 7.7%

<sup>14</sup> Value calculated as compared to 8.52% RRR

the expert's opinion is expected with respect to the relevance and/or utilisation of the direct method when determining Beta coefficient when the capital market has not developed sufficiently and it has little impact over the economy, therefore all such conditions should be examined on objective basis (official statistics and other relevant data) compared to the actual situation of Romania.

At the same time Transelectrica should specify all specific elements considered relevant under the assessment of the Beta coefficient by the valuator expert.

The court postponed judging the cause in order to enable the defendant to acknowledge the specifications to the claimant-submitted objections and set the hearing date on 09.02.2016.

On this date the court admitted the accounting expertise as proof - speciality financial investments and other security entities, prorogated the debate on the evidence by technical expertise – speciality electric power after provision of the accounting expertise proof - speciality financial investments and other security entities, and decided postponing the case until 25.03.2016, with a view to complete and analyse the expertise report.

On the hearing dates 25.03.2016, 22.04.2016 și 10.06.2016 the court postponed judging the case in the absence of the technical expertise report. The following date was set on 03.03.2017, and by the date of this report no other changes have occurred.

## COURT OF ACCOUNTS

In 2011 a dispute occurred under administrative dispute settlement, as a result of a decision issued and a conclusion by the Court of Accounts. The latter required certain measures to be implemented by the Company, in view of remedying some deficiencies found on the occasion of audits performed in the Company.

The law court maintained the obligation institute on Transelectrica to implement the

measures proposed by the Court of Accounts. The ruling of the administrative disputes section was appealed against with the High Court of Cassation and Justice.

On 13.10.2015 by Decision 3125/13.10.2015 the High Court of Cassation and Justice denied as groundless the appeal declared by the National Power Grid Company Transelectrica SA against Sentence 1304 of 10 April 2013 of the Bucharest Court of Appeal, Section VIII of administrative and fiscal disputes, such sentence being irrevocable.

Following an audit session of 2013 in the Company, the Court of Audit required the Company to apply certain measures as a result of deficiencies it has registered during this audit. Such decision and the conclusion issued by the Court of Audit were contested in the Appeal Court of Bucharest and the file 1658/2/2014 was constituted.

On 11.03.2015 the Bucharest Court of Appeal deferred the case to have the technical and accounting expertises performed, the next term being 20.01.2016.

At the hearing date of 20.01.2016 the law court deferred the case to enable the designated accounting expert to express his opinion about the defendant's objections to the expertise report in question as well as to allow the technical expert do his expertise work. The next hearing date was set on 18.05.2016.

On 29.06.2016 the law court deferred the case to have the technical expertise report completed. On the hearing date of 08.02.2017 objections were submitted to the expert's report. The next hearing date was set on 22.03.2017.

## **OPCOM**

On 24.11.2014 the Operator of the Electricity and Natural Gas Market OPCOM SA sued the Company with a view to compel it paying jointly the sum of 0.58 mill Euro (about 3 mill Lei ), representing the amount paid as fine out of the total charge of 1 mill Euro, such request included under file 40814/3/2014.

OPCOM SA has also asked the court to oblige the Company to pay legal interest for the period 11.06.2014 – 24.11.2014.

Previously the Shareholders' General Assembly of Subsidiary OPCOM SA decided in the meeting of 10.06.2014, to pay entirely the 1,031,000 Euro penalty applied by the General Directorate Competition of the European Commission for breaching article 102 from the Treaty of the European Union, in accordance with the Decision in the antitrust case AT 39984.

Such proceedings of OPCOM SA is the object of file 40814/3/2014 from the docket of Bucharest Tribunal, Section VI Civil, pertaining to claims under professional dispute, and the hearing date was set on 29.06.2015. The Company has prepared the defence for this legal summon, claiming exceptions and fundamental defence involving the illegality of the action.

At the hearing date of 24.07.2015 the instance admitted the suing action filed in contradiction and obliged Transelectrica to pay the amount representing the sum paid by the claimant instead of the defendant out of the total 1,031,000 Euro fine charged by the European Commission decision on 05.03.2014 in the case AT.39984, as well as the legal interest for the amount calculated from 11.06.2014 until actual payment. Also the instance obliged Transelectrica to pay the law suit expenses to OPCOM, amounting to 38 thousand Lei.

Transelectrica's appeal right is withing 30 days from notification. Transelectrica SA filed appeal against ruling 4275/2015, pronounce in the fore-mentioned file, which was registered on the docket of the Bucharest Court of Appeal.

The settlement of the Appeal Court: it admitted the appeal, changing the entire civil sentence appealed against in the sense it rejected the suing as groundless. It obliged the claimant respondent to pay law suit expenses to the plaintiff in appeal amounting to 0.016 mill Lei, representing judiciary stamp fee. Appeal was set within 30 days from notification and was pronounced at the public hearing date of 10.10.2016.

OPCOM S.A. appealed.

## 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 under File 449314 / 23.12.2014, based on which the Office of the Commercial Register from Bucharest Tribunal recorded the share capital increase of Subsidiary Smart SA by in-kind contribution and amended accordingly the Articles of Association in compliance with Decision 12375/22.12.2014 of the BA Chairman and to the BA Decision 19/22.12.2014. The Company also asked the competent court to repeal the two fore-mentioned decisions and suspend the enforcement of documents whose cancellation is requested until the case has been settled.

On 15.06.2015 Bucharest Tribunal pronounced ruling 3401/ 2015 , whereby it decided: "Denies as groundless the exception of the Romanian State's absent pasive file capacity through the Secretariat General of the Government. Denies as groundless the legal proceedings instituted by claimant CN Transelectrica SA in contradiction to defendants Subsidiary Company for Maintenance Services to the Electricity Transmission Grid SMART SA, the Romanian State through the Secretariat General of the Government and ONRC from Bucharest Tribunal, with appeal right within 5 days from pronouncement".

The Company filed appeal and this was registered on the docket of Bucharest Court of Appeal, Section VI Civil, with hearing date on 19.08.2015 and the law court rejected it at the hearing date of 21.09.2015.

At the same time the Company also sued the resolution of the director of ONRC Bucharest and against the documents issued by Subsidiary SC SMART SA to increase the share capital, included in file 14001/3/2015, on the docket of Bucharest Tribunal, Section VI Civil, with hearing date on 07.09.2015.

On 07.09.2015 the law court decided separating items 2 and 3 of the suing

proceedings of Transelectrica in contradiction with subsidiary SMART SA, the Romanian State through the Secretariat General of the Government and ONRC and a new file was constituted with hearing date on 02.11.2015. Judgment was furthered under file 14001/3/2015 by setting 19.10.2015 as hearing date, when the instance according to article 413 par 1 pt 2 C of the civil case, decided suspending the judgment on the suing proceedings of claimant Transelectrica in contradiction with subsidiary SMART SA, the Romanian State and ONRC until final settlement of the case under file 32675/3/2015 on the docket of Bucharest Tribunal, Section VI Civil.

Under file 32675/3/2015 on the 16.11.2015 hearing date the law court admitted the inadmissibility exception and rejected the suing proceedings expressed by claimant Transelectrica in contradiction with subsidiary SMART SA, the Romanian State and ONRC as inadmissible, with appeal right within 30 days from notification.

Following the Company's appeal, on 23.05.2016 the law court rejected the appeal as groundless. Admitted the referral request to the Constitutional Court. In accordance with article 29 par 4 from Law 47/1992, it notified the Constitutional Court to settle the non-constitutionality exception of the provisions from article 114 par 3 from Law 31/1990 compared to the provisions of article 16, article 21 and article 44 from the Constitution, exception invoked by the Company, and the ruling was final.

## ICEMENERG

In accordance with GD 925/2010 and with the related norms (GD 185/2013) the National Office of the Commercial Register, Office of the Commercial Register ("ONRC") from Bucharest Tribunal issued Resolution 41515/07.04.2014 admitting the cancellation demand of Subsidiary Energy Research and Modernising Institute ICEMENERG SA, and Resolution 41923/07.04.2014 admitted the registration demand, permitted the establishment and ordered registering the National Research-Development Institute for

Energy ICEMENERG Bucharest (J40 / 4323 / 2014).

Taking into account that the Company's property interests have been seriously impaired, Transelectrica has formulated appeal in order to 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 court motivation mainly relied on GD 925 / 2010 that has not been repealed to date, therefore the ONRC was right in ordering the cancellation of Subsidiary ICEMENERG and permitting the establishment of ICEMENERG Institute, stating that the stages provided in article 1 par 7 and in article 4 par 1 of GD 925 / 2010 "appear as subsequent not anterior to cancelling Subsidiary ICEMENERG and establishing ICEMENERG Institute", and that it has not retained the infringed rights of Transelectrica as single shareholder since the it ascertained the subsidiary's sole holder is the Romanian State.

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

Transelectrica SA expressed cancellation contest against Ruling 173 / 2015 issued by the Appeal Court Bucharest, which is included in file 1088/2/2015 on the docket of the Appeal Court Bucharest, Section VI of civil cases. On 13.05.2015 Ruling 777/2015 the Appeal Court Bucharest rejected the cancellation contest as groundless, and such ruling was final.

## DAGESH ROM

File 17284/3/2015 pertains to 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.

Ruling 7230/2016 was pronounced at the public hearing of 15.11.2016 and consisted of:

Denies the request – settlement in brief:

- It admitted the exception of the prescription and denied as barred the claims represented by:
  - The rent difference asked for 04.03.2012 - 12.05.2012;
  - The penalties associated to the sums requested as rent difference calculated for 04.03-12.05.2012;
  - The service fee difference requested for 04.03-12.05.2012;
  - The penalties associated to the sums requested as service fee difference calculated for 04.03- 12.05.2012.
- It denied the other claims as groundless;
- It obliged the claimant to pay 2250 Lei to the defendant, as law suit expenses;
- Appeal: within 30 days from notification, to be submitted with Bucharest Tribunal, Section VI Civil.



# Corporate Governance and Social Responsibility Report

## 14. Corporate governance

### Corporate governance regulation

Once its share listed on the regulated market of the Bucharest Stock Exchange („BVB”) the Company has appropriated the principles from the Corporate Governance Code of BVB. In accordance with BVB requirements Transelectrica made public to investors the Company’s reviewed Corporate Governance Regulation.

The Corporate Governance Regulation is an extremely important instrument for the Company and it mainly aims at gathering in just one document in synthetic manner the main existing rules and regulations, which are already applied by the Company. The central elements of this Corporate Governance Regulation are the investors’ access to information and the protection of shareholders’ rights.

The document has been elaborated in accordance with the principles set in the Corporate Governance Code of BVB and can be found on site at [www.transelectrica.ro](http://www.transelectrica.ro), section Investor relations / Corporate Governance / the Company’s Corporate Governance Code.

### Other applicable documents

The Company complies with the provisions of primary legislation on the capital market, while also observing and applying all provisions of secondary legislation, namely the ASF and BVB regulations and others, including internal,

which are relevant in the domain. Mention should be made of them:

- Corporate Governance Code of BVB;
- GEO 109/2011 with later amendments and additions, document introducing the corporate governance principles into independent and state owned companies;
- The Professional Ethical Code, compulsory for all organisational structures, which provides the ethical norms of conduct establishing and regulating corporate values, responsibilities, obligations and business conduct, which developed the company;
- The listing commitment whereby Transelectrica, in the Initial Public Offer (in 2006) committed observing the rights of security holders and providing equal treatment to security holders of the same type and category;
- The Corporate Governance Code and Anticorruption Principles elaborated by AmCham Romania, which are international standards used in a sound business environment;
- The Company’s Articles of Association updated on 23.03.2015 approved by Decision 2/23.03.2015 of the Shareholders’ General Extraordinary Assembly.

Figure 35: Supervisory Board structure on 31 December 2016



## Supervisory Board

On 31.12.2016 the Supervisory Board's membership was:

- Dragos Corneliu Zachia-Zlatea – Chairman
- Ovidiu-Petrisor Artopouloscu – Member
- Radu Bugica – Member
- Daniel-Cristian Pirvulescu – Member
- Costin Mihalache – Member
- Dorin Alexandru Badea – Member

In accordance with the updated Articles of Association, the Supervisory Board (SB) has seven members, appointed for an interval of four years at the most and they can be recalled any time by AGA.

All SB members should be independent. Each Supervisory Board member should formally state whether he is independent, as well as any time a change occurs in his condition, also showing the reasons why he considers himself independent. All members are non-executive. SB members can meet any time, but at least once every three months in any case.

The Shareholders' General Assembly established the mandate term, the remuneration and the professional liability insurance amount for Board members, as well as the form of the mandate contract concluded with them.

The Company will bear the costs of the professional liability insurance of SB members. The value of the insured amount and of the insurance premium were established by decision of the Shareholders' General Ordinary Assembly.

In 2016 the Supervisory Board met any time the Company interests required debating the issues related to the revenue and expense budget, the investment programme, the study and research programme, environmental quality issues, maintenance, feasibility studies etc.

## Electing the Supervisory Board members by the cumulative vote method

Upon the request of shareholders representing individually or jointly at least 10% of the share capital subscribed and paid the Directorate is compulsorily convening the shareholders' general assembly with agenda including election of Supervisory Board members using the cumulative vote method. Any shareholder having less than 10% of the share capital subscribed and paid can make written proposals to the Directorate to apply the cumulative vote method within 15 days from the publication date in Romania's Official Gazette, Part IV, of the convening notice for the shareholders' general assembly with agenda including Supervisory Board members election. In this case the application of the cumulative vote method to elect SB members is subjected to voting in the shareholders' general assembly.

By the cumulative vote method each shareholder is entitled to grant his cumulated votes, obtained after multiplying the votes held by any shareholder, according to his participation in the share capital, with the number of members to be included in the Supervisory Board, to one or several persons proposed to be elected in the SB.

By exercising the cumulative vote shareholders can grant all cumulated votes to one candidate or to several ones. Shareholders specify the number of granted votes to each candidate.

In case the cumulative vote method is applied the Supervisory Board members in office on the general assembly date will be enlisted ex officio on the candidate list for SB election next to the candidates proposed by shareholders. All candidates enlisted will be subjected to shareholders' voting at the shareholders' general assembly.

Supervisory Board members in office on the general assembly date that are not reconfirmed by cumulative vote as SB members are considered recalled from their position by decision of the general assembly. The mandate term of SB members in office on the shareholders' general assembly date where the cumulative vote was cast will

continue in case they are reconfirmed by the cumulative vote method.

In case two or several persons proposed to be elected as Supervisory Board members obtain the same number of cumulated votes, the elected member is declared the person that was voted by a greater number of shareholders. The election criteria for SB members in case two or several proposed persons obtain the same number of cumulated votes are established by the shareholders' general assembly and specified in its minutes.

### Remuneration of the Supervisory Board

SB members benefit of remuneration consisting of fixed monthly indemnification and variable component. The value of total remuneration owed to the Mandatee at any time for a certain period of time should be at least equal to the minimum general limit of the remuneration calculated for the same period of time, as such general limits are established by decision of the Shareholders' general assembly.

- The fixed monthly indemnification owed to Supervisory Board members during the application term of GEO 109/2011 on the corporative governance of public institutions, with later amendments and additions, in the applicable form on the approval date of the Mandate contract, is in quantum equal to the 12 months' mean of the gross average salary in the branch where the company operates, notified by the National Statistics Institute before appointment.

In the application of applicable legal provisions on the signature date of the mandate contract, the fixed monthly indemnification is of 4,000 Lei gross/month for the Supervisory Board chairman and of 3,900 Lei gross/months for Supervisory Board members.

- In addition to such fixed indemnification SB members are entitled to also receive an annual variable remuneration component for the cumulative achievement of the performance indicators: "Average interruption time", "EBITDA" and "Total

investments", assumed in the Administration plan for each mandate year.

The annual variable component for indicators "Average interruption time", "EBITDA" and "Total investments associated to each mandat year is in quantum of 12 fixed indemnifications and is owed to Supervisory Board members in case the actual level achieved of such performance indicators is carried out at values assumed in the Administration plan in the year the determination is made for.

- SB members are entitled to also receive a performance bonus depending on the profitability of Transelectrica shares for company shareholders.

Thus each Supervisory Board member will receive annually in November a package of Options for virtual Transelectrica shares (hereinafter called "OAVT") according to mandate contracts.

OAVT do not confer the capacity of shareholder and cannot be converted into Transelectrica shares.

In case of decisions impacting the nominal value of Transelectrica shares, the same effect will be also applied to the number of OAVT given/owed to Supervisory Board members (for instance in case the nominal value of Transelectrica share decreases 10 times, multiplying 10 times the number of shares, therefore without changing the value of the share capital, each OAVT will be multiplied 10 times).

### Attributions of the Supervisory Board

The Supervisory Board has the following main attributions:

1. Exercising control on the manner in which the Directorate leads the Company;
2. Endorsing the revenue and expense budget, the investment programme of the financial year submitted to the Shareholders' General Assembly for approval;
3. Approving the management plan elaborated by the Directorate;



4. Elaborating and submitting the administration plan to the shareholders' general assembly for approval, which includes the administration strategy during the mandate. The applicable Administration Plan on the date of this report was approved on 30.09.2013;
5. Determining the Directorate's membership and number;
6. Appointing and recalling Directorate members and establishing their remuneration;
7. Checking whether the activities carried out in the name and on behalf of the Company is in accordance with the legislation, the Articles of Association and with any relevant decision of the Shareholders' General Assembly;
8. Submitting a report about the supervisory activities performed to the shareholders' general assembly;
9. Representing the Company in the relations with the Directorate;
10. Approving the Directorate's internal rules;
11. Checking the Company's financial statements;
12. Checking the report of Directorate members;
13. Proposing to the general assembly the financial auditor's appointment and recalling, as well as the minimum term of the audit contract;
14. Endorsing the establishment or cancellation of secondary offices (branches, representation offices, agencies or similar units without legal personality).

In exceptional cases, when the Company's interest so requires, the Supervisory Board can convene the shareholders' general assembly.

The Supervisory Board also have attributions to endorse/approve contracts, credits and various Company-wide operations, according to the competency limits provided in Annex 2 to the Articles of Association.

#### Attributions of the SB secretary

Both on 31.12.2016 and on the issuance date of this report the position of Supervisory Board secretary is held by Mrs Nicoleta Bratucu.

The main attributions of the SB secretary are:

- Establishing, upon proposal of Company's management, the meeting dates and their agenda;
- Obtaining the agreement of the Company's Directorate/Supervisory chairman with respect to the draft agendas of meetings and requesting the agenda materials from the management of units responsible for activities;
- Elaborating the Convening notice and the Supervisory Board decision;
- Recording the debates of the Supervisory Board meeting and elaborating the minutes.

#### Consultative Committees

Three committees were constituted within the Supervisory Board. On 31.12.2016 the Committees had the following membership:

*Audit committee:* Radu Bugica, Dragos-Corneliu Zachia-Zlatea, Danel-Cristian Pirvulescu, Dorin-Alexandru Badea.

*Nomination and remuneration committee:* Costin Mihalache, Daniel-Cristian Pirvulescu, Ovidiu Petrisor Artopolescu, Dorin-Alexandru Badea.

*Energy security committee:* Dragos-Corneliu Zachia-Zlatea, Ovidiu Petrisor Artopolescu, Costin Mihalache, Daniel - Cristian Pirvulescu.

Decisions of consultative committees are taken with vote majority. In case of ballot the chairman will have the decisive vote.

Any member of a consultative committee can convene the meeting of the committee he is a member of. The convening note for consultative committee meetings will be transmitted to every committee member in writing, by fax or electronic mail to the e-mail

address and fax number of the respective committee member.

### Attributions of SB committees

The main attributions of SB committees depending on activity domain are:

#### *Nomination and remuneration committee*

- Coordinating the appointment of Directorate members;
- Elaborating and proposing to the Supervisory Board the selection procedure for Supervisory Board members, Directorate members and other managerial positions;
- Evaluating the cumulation of professional competencies, knowledge and experience in the Directorate;
- Determining the requirements to get a certain company administration position;
- Validating the Company's organisational chart;
- Elaborating the remuneration policy for Directorate and Supervisory Board members and submitting it to AGA approval;
- Submitting in the Annual Report the total sum of the direct and indirect remuneration of Directorate and Supervisory Board members, in separate mode by the fixed and variable components of such remunerations.

#### *Audit committee*

- Carrying out the attributions provided in article 47 from Governmental Emergency Ordinance 90/2008, approved with amendments by Law 278/2008, with later amendments and additions;
- Checking the area and approach of the external statutory auditors, including coordination of efforts of the external statutory audit with the internal one;
- Checking the communication of the code of conduct to company personnel and the compliance monitoring code;

- Monitoring the financial and managerial reporting, as well as the company's financial plan;
- Monitoring the statutory audit of the stand-alone annual financial statements and of the consolidated annual financial statements;

#### *Energy security committee*

- Monitoring and advising the Supervisory Board, the Directorate and specific Company compartments on the implementation of the administration strategy and management plan in the domain of strategic objectives for- the transmission and system operator answerable for electricity supply, under secure conditions for the entire SEN; RET operation using the energy security concept within the SEN; energy security and protection of critical infrastructures;
- Getting involved, under Supervisory Board mandate, next to the Directorate, in the dialogue with public authorities competent in energy security (Energy Department, specific Parliamentary Commissions).

### Activity of SB committees in 2016

The Energy security committee carried out the following activities in 2016:

- Identifying the most important 10 risks that can impact Company activities.
- Reviewing the stage of projects providing protection of critical infrastructures;
- Reviewing the stage of IT&C projects;
- Analysis of the refurbishment process in Company substations;
- Analysis of maintenance work to Company lines.

In 2016 the Nomination and remuneration committee carried out the following activities:

- Elaborating the 2015 report of the Nomination and Remuneration Committee;
- Reviewing the IT procurements;
- Reviewing the coordination of maintenance operations by the Operation and maintenance division;

- Meetings with the independent expert assisting the Supervisory Board to select a Directorate member in order to determine the selection stages and manner;
- Interviewing the candidates proposed by the external consultant to become members in the Directorate of CNTEE Transelectrica SA according to GEO 109/2011 on the corporative governance of public enterprises;
- Recommending a candidate to take up the vacant member position of the Directorate.

The audit committee, and namely the financial and development committee carried out the following activities in 2016:

- Discussing the reporting obligations of CNTEE Transelectrica SA in accordance with the new Governance code of BVB.
- Verification of:
  - The January-December 2015 preliminary report;
  - The Directorate activity report in the 4th quarter of 2015;
  - Verification of
    - The Company's 2015 stand-alone annual financial statements
    - The Company's 2015 consolidated annual financial statements
    - The opinion of Deloitte Audit SRL on the stand-alone and consolidated financial statements
    - Submitting the stand-alone financial statements for the meeting with analysts on 23.03.2016, 16:00 h.
    - Note of profit distribution for 2015
    - Note informing AGA about the internal audit systems and significant risks managing systems from Transelectrica (TEL) in 2015.
- Verification of:
  - Quarterly report with the economic-financial activities in the first half-year 2016;
  - Submitting the results of quarter I 2016;
  - Intermediate financial results, half-year 1, 2016.
- Verification of:

- Company's financial statements elaborated on 30.06.2016;
- Report elaborated as per the capital market requirements;
- Directorate's activity report as per the provisions of GEO 109/2011 with later amendments and additions;
- Submitting the financial results (to be held on 12.08.2016, according to the financial calendar amended by Current report of 05.08.2016).
- Steps taken to update the SB Regulation of organisation and operation;
- Verification of:
  - ✓ Stand-alone financial statements of 30.09.2016;
  - ✓ The directorate's activity report for the first 3 quarters of 2016;
  - ✓ Quarterly report with economic-financial activities, elaborated according to the provisions of article 227 of law 297/ 2004 on the capital market and Regulation 1/ 2006 issued by the National Securities Commission, currently the Financial Supervision Authority (ASF);

- Reviewing the 2017 Plan of internal public audit mission;
- Meetings with the representatives of control structures from the Company in order to improve their activity.

### Directorate

Directorate membership was as follows on 31.12.2016:

- Ion Toni Teau – Chairman
- Constantin Vaduva – Member
- Octavian Lohan – Member
- Mircea Toma Modran – Member

### Directorate organisation

Directorate members are appointed and recalled by the Supervisory Board. The number of members will be determined by the Supervisory Board, provided such number is not smaller than three or bigger than seven, always being odd. A Directorate member will be appointed Directorate chairman (alternative

name of Executive Director General or Chief Executive Officer – „CEO” – of the Company).

Directorate members are selected in accordance with the provisions of Governmental Emergency Ordinance 109/2011 on the corporative governance of public enterprises, and their mandate is granted for 4 (four) years.

In case a position of Directorate member becomes vacant, the Supervisory Board will appoint another member for the remaining mandate term of the replaced member, selected in accordance with the provisions of Governmental Emergency Ordinance 109/2011.

### Directorate remuneration

Directorate members benefit of remuneration consisting of fixed monthly indemnification and of variable component. The value of the total remuneration owed to the Mandatee any time for a certain period of time should be at least equal to the general minimum limit of the remuneration and at most equal to the maximum general limit of the remuneration, calculated for the same time period as such general limits are established by decision of the Shareholders' general assembly.

- The fixed monthly remuneration owed to Directorate members during the application of GEO 109/2011 on the corporative governance of public institutions, with later amendments and additions, in the applicable form on the approval date of the Mandate contract, is in quantum equal to maximum 6 times the 12 months' mean of the gross average salary in the branch where the company operates, notified by the National Statistics Institute before appointment.

In the application of legal provisions applicable on the signature date of the mandate contract, the fixed monthly indemnification is of 24,000 Lei gross/month for the Executive Director General and of 23,500 Lei gross/month for the other Directorate members.

- In addition to such fixed indemnification Directorate members are entitled to also

receive an annual variable component of remuneration for their cumulative achievement of the performance indicators: "Average interruption time", "EBITDA" and "Total investments", assumed in the Administration plan of each mandate year.

The annual variable component for indicators "Average interruption time", "EBITDA" and "Total investments", associated to each mandate year is in quantum of 12 fixed indemnifications and is owed to Directorate members only in case the actual achievement of such performance indicators is attained at values assumed in the Administration plan in the year the determination is made for.

- Directorate members are entitled to also receive a performance bonus depending on the profitability of Transelectrica shares for company employees.

Thus the Executive Director General and the other Directorate member will receive in November a package of Options for virtual Transelectrica shares (hereinafter called "OAVT").

OAVT do not confer the capacity of shareholder and cannot be converted into Transelectrica shares.

In case of decisions impacting the nominal value of Transelectrica shares, the same effect will be also applied to the number of OAVT given/owed to Supervisory Board members (for instance in case the nominal value of Transelectrica share decreases 10 times, multiplying 10 times the number of shares, therefore without changing the value of the share capital, each OAVT will be multiplied 10 times).

### Directorate duties

The main Directorate duties performed under supervision of the Supervisory Board are as follows:

- Determining the Company's development strategy and policies and establishing the operational departments;

- Submitting annually to the shareholders' general assembly the report on Company activities, the previous year's financial statements, the draft budget and the Company's investment programme in the current year;
- Concluding juridical deeds with third parties in the Company's name and behalf, while observing the provisions of the Articles of association about the joint signature as well as the aspects reserved for the competency of the shareholders' general assembly or of the Supervisory Board's;
- Hiring and dismissing, setting the tasks and responsibilities of Company personnel, in accordance with the Company's personnel policy;
- Elaborating the management plan and submitting it for Supervisory Board's approval. The applicable Management plan on the date of this report was approved on 06.06.2014 ;
- Negotiating and signing the Company-wide Collective labour contract and its addendums together with employees' representatives, with preliminary notification of the Supervisory Board;
- Taking all necessary useful measures for Company management, associated to the daily administration of each department or delegated to the general assembly or to the Supervisory Board, except for those reserved to the shareholders' general assembly or SB as per legal provisions, or according to the Articles of association;
- Approving the mandates of Company representatives in the shareholders' general assemblies of Transelectrica subsidiaries and quarterly informing the Supervisory Board about the mandates granted to them;
- Approving with the Supervisory Board's preliminary endorsement, the establishment or cancellation of secondary offices (branches, representation offices, agencies or similar units without legal personality);

- Approving the Company's conclusion of juridical deeds like the society contract regulated by the Civil code when the result is not an entity with distinct legal personality as well as approving the Company's participation as member in various domestic or international organisations.
- Exercising any competency delegated by the shareholders' general ordinary and extraordinary assembly according to legal provisions;
- Carries out the decisions of the shareholders' general assembly as well as the Supervisory Board decisions.

The Directorate has attributions with respect to endorsing / approving Company-wide operations, according to the competency limits provided in Annex 2 to the Articles of Association.

#### **Attributions of Directorate secretary**

The Directorate secretary has as main attributions:

- Organising and providing secretariat operations for Directorate meetings;
- Drawing up minutes;
- Typing and transmitting the measures decided at Directorate meetings to all organisational entities of the Company;
- Monitoring the achievement of measures and subsequently reporting the attained tasks by involved entities.

#### **Shareholders' general assembly**

This is the governance body of Transelectrica that decide on the Company's activities and policies. It can be ordinary or extraordinary, its specific attributions being provided in the Articles of Association.

Once listing its financial instruments on the regulated market of BVB Transelectrica assumed the obligation to comply with the rights of holders of such issued financial instruments and to treat them fairly.

Thus all holders of financial instruments from the same category of titles are treated fairly, all similar instruments of the same category conferring equal rights to holders.

Each share provides rights to its holder as they were provided in articles of association:

- The voting right in the shareholders' general assembly (one share = one vote);
- The right to elect and be elected in governance bodies;
- The right to participate to profit distribution (the right to dividend).

Holding the share certifies the lawful adhesion to the by-laws.

All shareholders are entitled to participate to AGA and to express their opinions during debates.

The general ordinary assembly has the following obligations and attributions:

- Discussing, approving or amending the annual financial statements after reviewing the reports of the Directorate, Supervisory Board and financial auditor;
- Distributing the profit and establishing the dividends;
- Electing and recalling Supervisory Board members;
- Setting the general remuneration limits for Supervisory Board and Directorate members;
- Setting the remuneration level of Supervisory Board members, as well as the terms and conditions of the mandate contract concluded with each one of the Supervisory Board members;
- Determining the revenue and expense budget and the investment programme of the financial year submitted for approval;
- Approving the administration plan, which includes the administration strategy during the mandate.

The general extraordinary assembly gathers any time it is necessary to take a decision on the following main aspects:

- Changing the juridical form or moving the Company's headquarters;
- Increasing or reducing the Company's share capital;
- Merging with other companies or splitting up the Company;
- Converting the shares, bonds or the bond emission;
- Concluding documents to acquire, estrange, exchange or constitute as security certain assets from the Company's non-current ones with value exceeding individually or jointly 20% of the total accounting value of Company non-current assets minus liabilities, during a financial year;
- The Company's conclusion of any operation, assuming of any obligation or commitment that might involve expenses or assuming any other important obligations by the Company, according to the competency limits set in Annex 2 to the Articles of association;
- The Company's making any types of loans or debts or obligations like loans except when the approved budget of the relevant year provides specifically otherwise;
- Any deed for free including any sponsorships and donations offered by the Company of individual value higher than 100,000 Lei.

For the fore-mentioned attributions the Romanian state's representatives in the shareholders' general ordinary or extraordinary assembly cannot decide other than by obtaining special mandate from the public institution that appointed or mandated them, as the case may be, mandate which has the shape of special power of attorney according to the capital market regulations and indicates the manner in which such representative will cast his vote.

#### **Attributions of AGA secretary**

The main attributions of the Shareholders' general assembly are:

- Determining the assembly dates, upon Directorate proposals, and their agenda as well;
- Drawing up the agenda (getting the Directorate's and Supervisory Board's agreement of proposals) and its completion for AGA reunions;
- Spreading the materials to AGA members in due time, or to SB members, as the case may be, where procedures so require;
- Elaborating the draft decisions of assemblies.

### Internal control

Internal control in the Company means the ensemble of policies and procedures devised and implemented by its management and personnel with a view to reach general objectives.

The mission of internal managerial control consists in providing internal administrative control in the Company with a view to achieve proper quality levels and Company attributions, as established in accordance with its own mission, under regular efficient economic conditions.

The object of internal managerial control comes from the activity targets of component organisational subunits and it consists of:

- Providing internal control of Company activities and in its organisational units;
- Providing control to public procurement activities and to other activities performed to ground, plan and achieve maintenance operations within the larger activities of Company organisational entities;
- Participating to commissions of detailed investigations, fraud examination and proposing sanctions according to competency domains;
- Preventing the conflicts of interests when managing the company funds according to competency domains;
- Promoting loyal competition and antitrust policies by detecting, discouraging and

sanctioning anti-competitive agreements, according to competency domains.

The main objectives of internal control are-executing systematic, ethical, economic, efficient operations, achieving the liability obligations, protecting resources against losses and damage by waste, abuse, improper management, errors, frauds, irregular acts; monitoring, coordinating and methodologically guiding the implementation and development of internal/managerial control.

Operational Procedures have been elaborated for specific activities, which are reviewed every time it is required. Thus operations, processes and activities are periodically re-analysed in order to make sure they comply with the current policies, procedures or other requirements.

Operational Procedures are available to all Company employees and have been posted on the internal portal. By their structure they establish separate tasks for each organisational structure/entity of the Company. Operational Procedures are applicable enforced and verified in each individual entity, on the occasion of audits.

### Internal audit

In 2016 public internal audit activities were performed Company-wide using one's own internal audit structure subordinated to the Company Directorate.

Own public internal audit activities are organised and performed only in 4 out of the 5 subsidiaries of CNTEE Transelectrica SA (OPCOM SA, SMART SA, TELETRANS SA and FORMENERG SA). It is subsidiary ICEMENERG SERVICE SA that lacks the public internal audit structure, which is provided by the Company's public internal audit (API) structure.

Both the public internal audit structure from CNTEE Transelectrica SA and the ones from the 4 subsidiaries are functional.

### Mission

- Providing consultancy and insurance regarding the efficiency of risk

management, control and management systems, thus contributing to added value and making recommendations to improve them;

- Assisting the Company management to reach the objectives and providing objective detailed valuations about the legality, regularity, economicalness and efficiency of activities and operations.

#### *Principles governing the activities*

- The internal auditor's code, which is meant to set up the ethical framework necessary for the internal audit profession;
- The internal audit charter determines the position of the internal audit structure in the public entity, defining the activity domain of internal audit, the rights and obligations of internal auditors;
- The Company's organisational independence so as not to be subjected to any kind of interference, beginning with the determination of audit objectives, the actual performance of the specific mission up to the notification of results;
- Individual objectivity, competency, professional conscience and continued professional training of auditors.

The Internal Audit Department carries out its activities based on its own procedure updated any time there is need. All the stages performed during audit missions are provided in this procedure.

The Internal Audit Department has elaborated its own methodological norms and working procedure with respect to exercising public internal audit activities in accordance with GD 1086/2013. At the same time Standard 9 – Procedures is implemented according to OSGG 400/2015, the procedural degree of such activities being 100%; the „Programme providing and improving the quality of public internal audit” (no. 9057/09.03.2016) was elaborated.

Public internal audit activities are planned in CNTEE Transelectrica based on the Multi-annual public internal audit plan executed in accordance with the International de 2010

Internal Audit Standard „Planning” și cu Law 672/2002 on the public internal audit, republished. This was devised by analysing the activities of CNTEE Transelectrica SA. The Company's organisational structure was also taken into account, as well as the public internal audit structure.

The main objectives of Internal Audit are as follows:

- Assisting the Company, both overall and its structures, by means of the expressed opinions and recommendations;
- Providing better risk management;
- Improving the quality of management, internal control and audit.

In 2016

The 2016 Plan of public internal audit missions (no. 43245/19.11.2015) was endorsed by the Company's Directorate and approved by the Supervisory Board. It included 10 insurance missions, 1 assessment mission 1 informal counselling mission.

In accordance with legal provisions audit topics and the activities/objectives of audit missions were selected taking into account the following items:

- Assessing the risk associated to various structures/activities/operations;
- The Company management's signal criteria and suggestions of shortcomings found in previous audit reports, or in the reports of other internal or external control bodies, assessing the impact of changes occurred in the environment of audited activities, other information and indexes with respect to malfunctions or deviations;
- Auditing periodicity, at least once every 3 years for Company activities;
- Valuation periodicity of public internal audit activities in the subordinated/ coordinated/ managed entities (namely subsidiaries);
- Available audit resources.

The 10 insurance missions of 2016 had the following topics:



- Assessing the activities of transmission branches in terms of their compliance with legal provisions and procedures on:

- Execution and settlement of the maintenance contract concluded with SC SMART SA;
- Administration, maintenance of buildings and insuring associated utilities;
- Making the inventory of patrimonial assets and recording the inventory results into accounting books;
  - Providing RET access;
  - Elaborating, analysing and endorsing the studies, technical-economic documentations, guidelines and procedures.
  - Operation, maintenance and improvement of the integrated management systems.

The assessment mission followed the public internal audit activities of SC TELETRANS SA, and the informal counselling mission valued the implementation of internal/managerial control standards in the organisational entities of CNTEE Transelectrica SA, according to the requirements of OSGG 400/2015, with later additions.

In 2016 no ad-hoc audit missions took place in CNTEE Transelectrica SA.

During the public internal audit missions performed in CNTEE Transelectrica SA in 2016 a number of 122 recommendations were expressed, of which 106 were implemented (86.9%), 6 were partially implemented (4.9%) and 10 not implemented (8.2%). Mention should be made the recommendations not yet implemented have deadlines in 2017.

Public internal audit missions conducted in subsidiaries in 2016 provided 57 recommendations, of which 19 were implemented (33.3%), 30 partially implemented (52.7%), and 8 are not implemented (14%).

There have been no irregularities or possible prejudices reported in the filled in Form Ascertaining and Reporting Irregularities (FCRI), and all recommendations were appropriated by the audited entities.

The Internal Audit Department is permanently monitoring the implementation stage of recommendations expressed during public

internal audit missions and, on the occasion of half-yearly/annual reporting it asks information from audited entities about the implementation stage of recommendations. The auditors at every audit mission verify the application mode of recommendations from previous audits.

Implementing the recommendations made during all public internal audit missions performed in 2016 also targetted and led to:

- Better knowledge and more efficient application of legislation, procedures and guidelines associated to audited activities;
- Detecting and correcting deficiencies that can be penalised by external control bodies;
- Eliminating the negative sides from audited activities with a view to mitigate risk occurrence;
- Improving the working mode with respect to monitoring and reconciling transactions and balances with Company subsidiaries, as well as reviewing, explaining and reconciling the differences comint out of reconciled processes;
- Greater attention paid when implementing the applicable regulations with respect to issuing technical connection endorsements, concluding and executing location freeing contracts and achieving coexistence or connection conditions;
- Checking better the execution and settlement of the minor maintenance contract concluded with SMART;
- Improving the working mode with respect to providing utility services for good performance of activities and concluding utility agreements, as well as to carrying on, settling and accounting registration of utility services;
- Improving the execution/fill in mode of documents resulting from the inventory of patrimonial assets;
- Improving the working mode with respect to the operation, maintenance and improvement of the integrated management system of the Company, and with respect to elaborating,

analysing and endorsing the studies, technical-economic documentations, guidelines and procedures.

- Enhancing communication in-between Company entities;
- Improving the internal control system from entities and audited activities.

The 2017 plan of public internal audit missions observing the applicable legal and procedural framework is devised by the following topics:

- Providing functionality to the IT & telecommunication system of CNTEE Transelectrica SA;
- Assessing the public internal audit carried out in SC Formenerg SA;
- Assessing the activities of transmission branches in terms of their compliance iwth legal and procedural provisions regarding:
  - Issuing/participating to the issuance of location endorsements and of technical connection endorsements;
  - Providing security and health to the working system;
  - Constituting and paying local charges and taxes;
  - Granting and paying increases, salary and other rights provided in the CCM;
  - Managing the metering system of the electricity transacted on the wholesale market;
  - Management of human resources;
  - Safe efficient administration of the car fleet of transmission branches;

## Statement of compliance with the Corporative Governance Code of BVB during transition

Provisions of the Code		Compliant	Partial compliance (the incompliance reason)
<b>Section A – Responsibilities [of the Supervisory Board]</b>			
A.1.	TEL should have an internal SB regulation including the SB terms of reference /responsibilities and the key managerial functions of TEL, which is also applying among others the General Principles of Section A.	The SB of TEL perform activity based on the applicable legislation, the Articles of association, SB Regulation of organisation and operation, and decide on issues of Company activities, except those which, as per legal provisions, pertain to AGA or other corporate bodies. <b>Details - in the Annual Report, section Corporative Governance</b>	
A.2.	Provisions to manage conflicts of interests should be introduced in the SB regulation. In any case SB members should notify the SB with respect to any conflicts of interests occurred or that can occur and refrain from any participation to discussions (non-attendance included, except when non-attendance might prevent acquiring the quorum and taking decision on the issue that raised the respective conflict of interests.	AGOA appoints SB members observing the provisions applicable to companies admitted for transaction and are selected in accordance with the provisions of GEO 109/2011 on the corporative governance of public enterprises. <sup>15</sup>  At the same time upon hiring, a process attached to the participation documentation, candidates are obliged to submit their own liability statement with respect to the respective person's independence;  Moreover, candidates to SB membership are selected observing the provisions of article 39 from the Articles of association and of article 34 from Law 123/2012;  Such aspects are also stipulated in the SB Regulation of organisation and operation; <b>Details - in the Annual Report, section Corporative Governance</b>	
A.3.	SB should include at least five members.	SB has seven members <b>Details - in the Annual Report, section Corporative Governance</b>	
A.4.	No less than two SB non-executive members should be independent. Each SB independent member should submit a statement upon nomination in view of election or re-election, and also whenever a change occurs in his statutory position, providing the basic items by which he considers being independent in terms of his character and judgment	During the hiring process, attached to the participation documentation, candidates are obliged to submit their own liability statement with respect to their independence state;	
A.5.	Alte angajamente și obligații profesionale relativ permanente ale unui membru al CS, inclusiv poziții executive și neexecutive în CS unor societăți și instituții non-profit, trebuie dezvăluite acționarilor și investitorilor potențiali înainte de nominalizare și în cursul mandatului său.	<b>Details - in the Annual Report, introductory section</b>	
A.6.	Any SB member should provide SB with information about any relation he has with a shareholder having direct or indirect shares totalling over 5% of all voting rights. This obligation refers to any kind of	<b>See - Explanations of A.4</b> <b>Details - in the Annual Report, section Corporative Governance</b>	

<sup>15</sup> See the explanations of A.4.

Provisions of the Code		Compliant	Partial compliance (the incompliance reason)
	relation that might impact the member's position in issues decided by the SB		
A.7.	TEL should designate a SB secretary responsible to support Board activities	<b>Details - in the Annual Report, section Corporate Governance</b>	
A.8.	The corporative governance statement will notify whether any SB valuation took place under chairman leadership or of the nomination and remuneration committee and, if so, will summarise the key measures and changes resulting from it. TEL should have a policy/guide for SB assessment including the purpose, criteria and frequency of evaluation.		<i>Partially implemented - administrator activities are valued annually with respect to the execution of the mandate contract and administration plan, according to the provisions of GEO 109/2011 on the corporative governance of public enterprises. Thus shareholders review annually SB activities in the AGOA, based on their submitted activity report.</i>
A.9.	The corporative governance statement should contain information about the number of SB and committee meetings in last year, the attendance of administrators (in person and in absentia) and the SB and committees' report about their activities	<b>Details - in the Annual Report, section Corporate Governance</b>	
A.10.	The corporative governance statement should include information about the accurate number of independent members in the SB	All members are independent, elected in observance of provisions applicable to companies admitted for transaction and are selected in accordance with the provisions of GEO 109/2011 on the corporative governance of public enterprises; <b>Details - in the Annual Report, section Corporate Governance</b>	
A.11.	The SB of TEL should set up a nomination committee including non-executive members, which will lead the procedure nominating new SB members and will make recommendations to the SB. Most members in the nomination committee should be independent.	<i>SB<sup>16</sup> have established the Nomination and remuneration committee, which formulates proposals of SB members and Directorate members, elaborating and proposing to the SB the selection procedure of SB members, Directorate members and other managerial positions; formulating proposals for the remuneration of Directorate members and of other managerial positions.</i> The organisation, operation and attributions are set in the Charter of the Nomination and remuneration committee. <b>Details - in the Annual Report, section Corporate Governance</b>	
<b>Section B - Risk management and internal control system</b>			
B.1	SB should set up an audit committee where at least a member should be independent. Most members, chairman included, should have proved they have the proper qualification for the committee's positions and responsibilities. At	<i>The Audit committee performs the attributions provided in article 47 from Governmental Emergency Ordinance 90/2008, approved with amendments by Law 278/2008, with later amendments and additions.</i>  <i>The organisation, operation and attributions are set in the Charter of the Audit committee</i>	

<sup>16</sup> <https://www.transelectrica.ro/consiliul-de-supraveghere>

Provisions of the Code		Compliant	Partial compliance (the incompliance reason)
	least one committee member should have audit or accounting experience, proved accordingly. In case of Premium Category companies, the audit committee should have at least three members and most audit committee members should be independent	<b>Details - in the Annual Report, section Corporate Governance</b>	
B.2.	The audit committee chairman should be an independent non-executive member.	<i>The name of the audit committee chairman is included also in the Annual report and in the Company's web page, <a href="https://www.transelectrica.ro/consiliul-de-supraveghere">https://www.transelectrica.ro/consiliul-de-supraveghere</a>.</i> <b>Details - in the Annual Report, section Corporate Governance</b>	
B.3.	Among its responsibilities the audit committee should make an annual evaluation of the internal control system	<b>Details - in the Annual Report, section Corporate Governance</b>	
B.4.	Such evaluation should take into account efficiency and inclusion of the internal audit function, the adequacy of risk management and internal control reports submitted to the Board's audit committee, the promptness and efficiency by which the executive management solve deficiencies or weaknesses detected after internal control and submitting relevant reports to the Board	<b>Details - in the Annual Report, section Corporate Governance</b>	
B.5.	The Audit committee should assess the conflicts of interests with respect to the company's transactions and of its subsidiaries' with affiliated parties	In accordance with Annex 2 to the Articles of association of the National Power Grid Company Transelectrica SA, the competency limits of the Directorate, SB and AGA associated to TEL-wide operations; <b>Details - in the Annual Report, section Corporate Governance</b>	
B.6.	The Audit committee should assess the efficiency of the internal control and risk management systems	<b>Details - in the Annual Report, section Corporate Governance</b>	
B.7.	The Audit committee should monitor the application of legal standards and the general internal audit standards. The Audit committee should receive and assess the reports of the internal audit team	<b>Details - in the Annual Report, section Corporate Governance</b>	
B.8.	Each time the Code mentions reports or reviews initiated by the Audit committee, they should be followed by periodical (at least annual) or ad-hoc reports, to be later submitted to the Board	<b>Details - in the Annual Report, section Corporate Governance</b>	
B.9.	No shareholder can be provided preferential treatment against other shareholders about transactions and agreements concluded by the Company with shareholders and their affiliates	The Company is obliged to provide equal treatment to all security holders, of the same kind and category, and will place at their disposal all necessary information so that they can exercise their rights	
B.10.	SB should adopt a policy provided any TEL transaction with any of the companies it has close relations with whose value equals or exceeds 5% of the net assets of TEL (as per the	In accordance with Annex 2 to the Articles of association of the National Power Grid Company Transelectrica SA, the competency limits of the Directorate, SB and AGA associated to TEL-wide operations Moreover with a view to carry out the reporting obligations	

Provisions of the Code		Compliant	Partial compliance (the incompliance reason)
	last financial report) is approved by the SB following compulsory audit committee opinion, accurately revealed to shareholders and potential investors to the extent in which such transactions fall in the category of events subjected to reporting requirements	according to article 113 let G par (6) from Regulation 1/2006 of CNVM on issuers and security operations, corroborated with the provisions of article 225 from Law 297/2004 on the capital market, the financial auditor of TEL makes half-yearly analyses of transactions with affiliates. The auditor's report is transmitted to BVB and ASF and is also published on TEL site section Investor relations / Current reports	
B.11.	Internal audits should be made by a structurally separate division (the internal audit department) of TEL or by hiring an independent third party entity.	Company-wide public internal audit activities are performed using one's own audit structure, thus observing the requirement set in Law 672/2002 on public internal audit - article 10 par (1), republished as later amended and added <i>According to the Organisational chart <sup>17</sup> there are such organisational entities within TEL, namely Public Internal Audit, Control, Integrated Management and Support Service Division, the Control Division.</i>	
B.12.	To provide performance of the audit department's main functions it should functionally report to the SB through the audit committee. For administrative purposes and under managerial obligations to monitor and mitigate risks, the department should directly report to the director general.	<i>According to the Regulation of organisation and operation of involved organisational entites;</i>  <b>Details - in the Annual Report, section Corporate Governance</b>	
<b>Section C – Just Reward and motivation</b>			
C.1.	TEL should publish the remuneration policy on its internet page and include a statement in the annual report about the remuneration policy implementation during the studied annual period	<i>According to applicable regulations the Company informs annually the Shareholders' General Assembly through the Report of the Nomination and Remuneration Committee</i> <b>Details - in the Annual Report, section Corporate Governance</b>	
<b>Section D – Adding Value by means of Investor relations</b>			
D.1.	TEL should organise an Investor relations office, indicating to the public the responsible person / persons or organisational unit. Besides the information required by legal provisions TEL should include a section dedicated to Investor relations on its internet page, in Romanian and in English	Transelectrica comprises in its structure organisational entities specialised both for Investor relations and for Shareholder relations ( <a href="#">contact</a> ).  Documents can be consulted at <a href="https://www.transelectrica.ro/web/tel/relatii-investitori">https://www.transelectrica.ro/web/tel/relatii-investitori</a> .	
D.1.1	Main corporative regulations: Articles of association, procedures on the shareholders' general assemblies;	<i>The following can be consulted on TEL site, <a href="https://www.transelectrica.ro/regulament-de-guvernanta-corporativa">https://www.transelectrica.ro/regulament-de-guvernanta-corporativa</a>, and the AGA Procedure is provided in each convening notice/addition, section Investor relations/AGA</i>	
D.1.2	The profesional resumes of members in TEL managerial bodies, other profesional commitments of SB members, including executive and non-executive positions in boards of administration of companies or non-profit institutions;	Documents public on TEL site, in the section of Investor relations/Corporate governance/ Supervisory Board and Directorate - <i>Biografice Notes and CV-s;</i> ( <a href="https://www.transelectrica.ro/web/tel/quvernanta-corporativa">https://www.transelectrica.ro/web/tel/quvernanta-corporativa</a> )	

<sup>17</sup> <https://www.transelectrica.ro/documents/10179/39811/ORGANIGRAMA.pdf/357d606d-0a0c-4524-aab4-36e12beb7e62>

Provisions of the Code		Compliant	Partial compliance (the incompliance reason)
D.1.3	Current and periodical reports (quarterly, half-yearly and annual) – at least those provided in D.8 – including current reports with detailed information about the incompliance with this Code;	Relevant documents can be consulted on TEL website, section Investor relations, tab of Current and periodical reports, link: <a href="https://www.transelectrica.ro/web/tel/relatii-investitori">https://www.transelectrica.ro/web/tel/relatii-investitori</a> ;	
D.1.4	Information about the shareholders' general assemblies: agenda, informative materials, election procedure of Board members; arguments sustaining the proposed candidates for Board election, plus their professional CV-s; shareholders' questions on agenda items and the company's answers, including decisions taken;	Documents can be consulted on TEL website, section Investor relations /AGA, link: <a href="https://www.transelectrica.ro/web/tel/aga">https://www.transelectrica.ro/web/tel/aga</a> ,	
D.1.5	Information about corporative events such as dividends payment and other shareholder distributions or other events that lead to acquiring or limiting the rights of a shareholder, including deadlines and principles applied to such operations. The information will be published within terms that enable investors to decide on investments;	Documents can be consulted on TEL website, section Investor relations, link <a href="https://www.transelectrica.ro/web/tel/relatii-investitori">https://www.transelectrica.ro/web/tel/relatii-investitori</a> ;	
D.1.6	Name and contact details of a person that can supply relevant information upon request;	<a href="mailto:relatii.investitori@transelectrica.ro">relatii.investitori@transelectrica.ro</a> , contact phone number - Shareholders: +40.21.303.59.48 contact phone number - Investor relations +40.21.303.58.26, data posted also on TEL website, link: <a href="https://www.transelectrica.ro/web/tel/contact-ri">https://www.transelectrica.ro/web/tel/contact-ri</a> ,	
D.1.7	TEL presentations (e.g. to investors, of quarterly results etc.), financial statements (quarterly, half-yearly and annual), audit and annual reports.	Documentele se pot consulta pe website-ul TEL, secțiunea Relații investitori, link: <a href="https://www.transelectrica.ro/web/tel/rapoarte-periodice">https://www.transelectrica.ro/web/tel/rapoarte-periodice</a> ,	
D.2	TEL will have a policy on annual dividend distribution or other benefits to shareholders, proposed by the Directorate and adopted by the Supervisory Board as a set of guidelines about net profit distribution that TEL intends to observe. The main principles of the annual distribution policy to shareholders will be posted on the internet page of TEL.	On 28 March 2016 shareholders adopted a policy regarding the annual dividends distribution  Link: <a href="https://www.transelectrica.ro/documents/10179/3235082/03_Propunere+Politica+de+dividend+TEL.pdf/a03e6232-5f57-420b-902f-a98cd611d450">https://www.transelectrica.ro/documents/10179/3235082/03_Propunere+Politica+de+dividend+TEL.pdf/a03e6232-5f57-420b-902f-a98cd611d450</a> ,	

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Provisions of the Code		Compliant	Partial compliance (the incompliance reason)
D.3	TEL will adopt a policy in relation to projections, whether they are made public or not. Projections refer to quantified conclusions of studies meant to determine the global impact of a number of factors from a future period (so-called assumptions): by its nature such projection has high uncertainty degree, actual results can significantly differ from the initial provisions. The forecast policy will set the frequency, time interval taken into account and content of projections. If published, projections can be included only in annual, half-yearly or quarterly reports. The projection policy will be published on the Company's internet page		Company activities are regulated by the National Regulatory Authority in Energy. The Administration plan elaborated by the SB includes the administration strategy during mandate, contributing to achieved Company mission, being elaborated using the Company's vision, values and strategic directions, aiming at reaching objectives and the contracted performance criteria.
D.4.	AGA rules should not limit shareholders participation to AGA and the exercise of their rights. Rule changes will become effective the soonest at the following AGA;	TEL observes all rights of holders of issued financial instruments and provides them with fair treatment, regardless of the number of shares held and permanently making efforts to achieve actual active transparent communication, with a view to shareholders' exercise of their voting rights in fair manner;	
D.5.	External auditors will be present at the shareholders' general assembly when their reports are submitted at such assemblies.	✓	
D.6.	SB will submit to the shareholders' annual general assembly a brief appreciation on the internal control and risk management systems, as well as opinions about issues subjected to decision of the general assembly	AGO material for the 27/28 April 2017 reunion	
D.7.	Anu specialist, consultant, expert or financial analyst can participate to the shareholders' assembly based on a preliminary invitation from the Board. Accredited journalists can also participate to the shareholders' general assembly except when the Board chairman decides otherwise	Accredited journalists can also attend the shareholders' general assembly, provided they transmit a preliminary information to the Directorate	
D.8.	Quarterly and half-yearly financial reports will include information both in Romanian and in English about the key factors influencing the changes of sales, of operational profit, net profit and other relevant financial indicators, both from one quarter to another and from one year to another	Relevant documents can be consulted on TEL website, section Investor relations/Periodical reports, link <a href="https://www.transelectrica.ro/web/tel/relatii-investitori">https://www.transelectrica.ro/web/tel/relatii-investitori</a> ;	
D.9.	TEL will organise at least two meetings / conference calls with analysts and investors each year. The information submitted on these occasions will be published in the investor relation section of the TEL internet page on the meeting/ conference call date	According to TEL's annual Calendar of Financial Reporting, approved and transmitted to the capital market institutions, BVB and ASF, the Compania has established four meetings with financial analysts, placement consultants, brokers and investors to submit financial results; <a href="https://www.transelectrica.ro/web/tel/calendar-financiar">https://www.transelectrica.ro/web/tel/calendar-financiar</a>	
D.10	In case TEL supports various forms of artistic and cultural expression, sport activities, educational or scientific	Document can be consulted on TEL website, section About us/ Corporate social responsibility, link: <a href="https://www.transelectrica.ro/web/tel/responsabilitate-">https://www.transelectrica.ro/web/tel/responsabilitate-</a>	



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Provisions of the Code	Compliant	Partial compliance (the non-compliance reason)
<p>activities and considers their impact on the innovative competitive character of TEL is included in its development mission and strategy, it will publish the policy with such activities</p>	<p><a href="#">sociala-corporativa</a>,</p>	

## 15. Corporate responsibility

Besides its economic performance, qualitative management and communication policy, Transelectrica intends to actively participate into the development of the society it operates in by means of corporative social responsibility (CSR) projects.

Being a socially responsible company means not only to achieve legal obligations applicable in one's own business, but also furthering the actions performed by more investments in human capital, in the environment and in the relationships with stakeholders.

In accordance with Transelectrica's Corporate Social Responsibility the Company's executive management is aware of the need to get involved in social reality in order to provide, besides commercial respect, the consideration of the community one works in.

Figure 36: CSR policy – stakeholders



Transelectrica takes into consideration the company's interests and makes itself responsible to employees, shareholders, the community and the environment with a view to generate prosperity, jobs and to provide sustainability to a sound financial enterprise.

CNTEE Transelectrica SA aims at adopting and integrating the best CSR practice in its business model so as to increase both the efficiency of managerial acts and the company

value by enhancing the confidence of employees, shareholders, partners and the community's in its economic social potential.

Along the years from the very Company establishment the corporative social responsibility policy focused on actions included in a long term strategy:

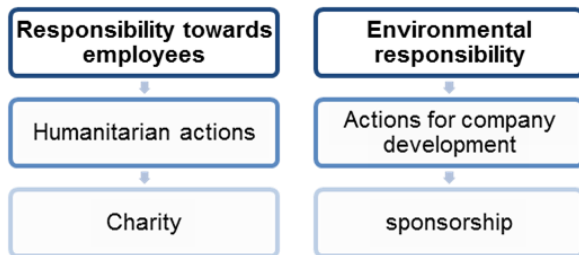
Fields	Actions
<input type="checkbox"/> Art and culture	<input type="checkbox"/> Donations
<input type="checkbox"/> Education	<input type="checkbox"/> Sponsorships
<input type="checkbox"/> Humanitarian actions	<input type="checkbox"/> Charity acts
<input type="checkbox"/> Actions for company development	

The Company by all proposed objectives of corporative social responsibility and by volunteer, sponsorship and donation activities commits ethically and contributes by transparent responsible business practice to the sustainable economic development and to social cohesion, while at the same time improving the quality of employees' lives and their families' and that of local communities and of the society it operates in.

*The CSR vision of Transelectrica* provides promotion of national values such as innovation, team spirit, respect for diversity and commitment.

In 2016 Transelectrica focused CSR activities in domains such as- humanitarian actions answering to the needs of some employees, and support to the education of young people, future electric power engineers; developing the community, protecting the environment.

Figure 37: Actions performed in 2016



The Company retains and motivates its employees by providing proper working environment where they can feel comfortable, which can allow their successful growth both in profession and in private, benefitting of:

- Jop stability and safe working conditions;
- Training and development opportunities under the Annual programme for employees' professional training and qualification;
- Career opportunities by internal promotions;
- Development opportunities;
- Campaigns assessing the employees' health- general consultations, lab tests, flu and hepatic shots;
- Optionally, employees can also benefit of voluntary health insurance, with employee co-financing.

Also in serious health conditions the Company provides financial support to employees or to family members to continue some special medical treatments or to undergo surgery abroad.

In 2016 the Company's executive management decided providing financial aids to solve some serious health issues in sum of 94,294.65 Lei to 6 persons, both Transelectrica employees and seriously ill people that requested the Company's support.

The Company also pays great attention to supporting young generations, future electric power engineers. For about 4 years CNTEE Transelectrica SA and IRE (National Romanian

Institute Studying the Development and Utilisation of Energy Sources), Romania's representative in EURELECTRIC have been selecting young people from the Polytechnic Universities in the country that can participate by scientific articles to the „Students Competition” section of the annual EURELECTRIC Conference. To this respect CNTEE Transelectrica SA provides material support to participating students, covering their travel and accommodation costs abroad.

To support the education of students from the Energy Faculty of Bucharest and in the country in 2016 CNTEE Transelectrica SA granted ten study scholarships amounting in total to 117,650 Lei to students that got very good results.

Enhance the quality of graduates from the Electric Power Engineering Faculty also involves student education in modern laboratories with a view to complete the theoretical requirements and practical abilities. Thus in 2016 CNTEE Transelectrica SA involved in the modernisation of laboratories from the Electric Power Department of the Polytechnic University Timisoara.

Taking into account Directive 2014/95/EU will introduce for companies like CNTEE Transelectrica SA the obligation to report non-financial performance, in 2017 the Company intends elaborating CSR programmes, correlated with the communication strategy and with the CSR policy.

In 2017 CNTEE Transelectrica aims at getting involved in more social responsibility activities next to Romanian NGO partners or by financing projects that have positive impact over the society.

Transelectrica's values become the stronger as the socially responsible behaviour represents each employee, but also the Company's CSR vision. Thus the Company makes sure it can get to the high level of social responsibility to the society, by means of programmes generating long terms results and positive attitudes.

## 16. Responsibility towards employees

The maintenance and permanent development of the Integrated Management System with respect to operational health and security represents a Company top priority.

Labour security and health programmes of the Company aimed at the following objectives:

- Bringing installations to the level of health and security requirements set in one's own labour security guidelines, aligned to European requirements; such activities resulted in reduced accident and professional illness risks for personnel active in Company installations;
- Endowing Company personnel with individual protection equipment, according to one's own labour security requirements;
- Providing and permanently supervising the health condition of personnel, according to the provisions of GD 355/2007;
- Training the personnel with respect to the accident risks in Company installations.

The 2016 labour security and health programme was achieved 52% and corresponded to 1,247 thousand Lei compared to the budget value of 2,390 thousand Lei.

14 July 2016 was the term of a medical service contract by volunteer health insurance concluded with AXA LIFE INSURANCE for the third year. This is a 3 years' subsequent contract of 2013-2016, which included volunteer health insurance, optional for Company employees according to law 95/2006 on volunteer health insurance and its Methodologic Norms of application as of February 2007. The people insured under this contract benefitted of free medical services upon request, according to the terms of reference.

In September 2016 terms of reference were elaborated to procure medical services by volunteer health insurance for the employees of CNTEE Transelectrica SA. They were submitted to the Procurement Division that initiated the procedure.

Medical service contracts were also carried on according to the CCM. Under such contracts employees benefitted of medical consultations and investigations that helped detecting various afflictions in due time. The following medical services were included under these contracts- gynecologic examination, Babes-Papanicolau test, echograph, PSA+Free PSA, cardiologic exam + EKG, full haemoleucogramm etc.



Medical assistance of labour medicine was and is provided in the Company by labour medical doctors in the medical cabinets of the Company Executive and Branches. The situation of doctors hired in the Company changed in 2016. Thus medical cabinets from: Executive, Bucharest, Craiova, Cluj, Sibiu, Pitesti, Timisoara have got labour medical doctors; TB Bacau and TB Constanta have not got doctors.

Periodical medical control of licensed personnel, car drivers and unlicensed personnel from TB Bacau was provided by labour medical doctors from the Executive and TB Sibiu.

TB Constanta achieved periodical medical control under contract with a Medical Centre, and medical examination every 6 months for isolation conditions was provided by the labour medical doctor of the Executive-Tel.

The health condition of Company employees was supervised as follows:

- in the first four months of 2016 periodical medical control was provided to operative personnel working in electric installations;

Such periodical medical control of personnel licensed for work in electric installations included medical examinations from:

- –„Form 123 - Work at high altitude”
- „Form 124 - Work energised or non energised very high, high, medium and low voltage electric networks”
- „Form 141 - Personnel working in isolated conditions”

- „Form 143 - Personnel working night shifts”, as per GD 355/2007 on supervision of workers' health, amended and added by GD 1169/2011.
- As of May 2016 periodical medical control began for the Company employees that do not need licensing;

In July - November 2016 periodical medical control was provided to operative personnel working in isolated conditions.

2016 registered 4 labour accidents or events, which involved company employees and led to 75 days of labour incapacity, Company-wide.

Two of these accidents occurred in TB Bacau, one in TB Cluj, and a death in TB Constanta

To improve the efficiency of labour security and health one takes into account:

- Completing the reevaluation of risk factors for professional accident and illness for all Company jobs;
- Monitoring the health of personnel with cardio-vascular conditions (forbidden to licensing) and quarterly reporting to the Integrated Management Department
- Consulting the main general entrepreneurs for occupational health and security, as contracted for work to RET installations by inviting them to the meetings of the labour health and security entity.

## 17. Responsibility towards environment

Environmental protection is an important objective to the Company, with a view to the Company's sustainable development. Thus the environmental protection policy belongs to the general one, aiming at maintaining a good environmental management system, preventing and reducing pollution, compliance with legal national and European requirements, and sustainable development.

The 2016 environmental objectives aimed at maintaining a state-of-the-art environmental management system, as well as pollution prevention and reduction so that the environmental impact of the electricity transmission grid can observe the limits of national and European requirements. Objectives were achieved by preventive and corrective activities included in the annual environmental management programme.

To achieve such objectives the Company applied measures to reduce the environmental impact of both operational and of maintenance & investment activities, which meant construction-installation work, so in 2015 no particular environmental protection issues were reported.

### Describing the environmental impact of the RET

High voltage electric installations mainly consisting of overhead lines and transformer & connection substations are installations that

can have significant environmental impact given the technical complexity of installations but also the land areas taken up and the length of tens or even hundred km, usually crossing the territory of several counties.

No pollutants are discharged in the environment during normal operation of RET installations. Certain chemical substances of pollutant nature can be accidentally leaked in the environment in case of non-tight equipment, wrong operation, failures or during construction and maintenance operations.

Environmental aspects for technology and construction are detected and assessed from the very design stage. The environmental management plan is elaborated according to them (for construction, operation and dismantling of installations), which includes measures to prevent pollution or to reduce the environmental impact, as well as the monitoring plan for environmental factors.

In 2016 in terms of environmental impact:

- No accidental pollution of significant environmental impact was recorded;
- There were no environmental complaints;
- Generated waste was disposed of/ capitalised 93.72%, the other being stored.

### Impact indicators

- **Land occupation**

Table 33: Areas occupied by electric lines and substations

Entity	No safety area [m <sup>2</sup> ]		With safety area [m <sup>2</sup> ]	
	Substations	OHL	Substations	OHL
<b>Total 2016</b>	3,980,544	3,205,655	7,123,765	520,529,940

- **Underground and terrestrial sources of soil and water pollution**

No noxious substances are discharged on ground, in underground or terrestrial waters during normal operation of RET installations.

Accidental pollutions can occur owing to non-tight/broken equipment containing dangerous substances or electro-insulating oil, or to defects in the oil regeneration / supply/ discharge installations into/from equipment.

Car oil/fuel leaks can also occur from transport outfits and means during construction and maintenance work (the oil leaked in the environment was retained by absorbant biodegradable earth).

- **Pollution sources of air**
  - **Direct emissions**

During construction, maintenance and normal operation of RET installations no significant pollutant amounts are discharged in the atmosphere.

During construction, maintenance and normal operation of RET installations the following atmospheric emissions can occur: suspended powders - during construction work, flue gas - from cars, electric generating sets and thermal plants, ozone in negligible amounts (Corona effect), sulphur hexafluoride - as result of non-tight equipment or improper gas handling.

Flue gas (SO<sub>x</sub>, CO<sub>x</sub>, NO<sub>x</sub>, COV, suspended powders etc.) can result from fires or explosions.

High voltage OHL generate atmospheric pollution by ozone and nitrogen oxides after Corona discharges occurring around active conductors, especially during rains. The additional contribution of such pollutant substances is not major and cannot lead to exceeding the legal threshold values, beyond which there is risk for human health.

Table 34: Waste management

Generated waste (t)	Capitalised waste (t)	Disposed waste (t)	Stored waste (t)	Waste management indicator: disposed, capitalised waste/ generated waste
8,741	1,186	7,006	549	93.72%

- **Electromagnetic field generated by RET installations**

Transformer/connection substations and the 220 kV and 400 kV overhead lines have got relatively low impact nearby, which can be found only around RET installations. A great part of disturbing effects are owed to electric induction (into non-grounded metallic objects or structures) and to interference phenomena

- **Used water sources**

Electricity transmission processes do not generate technological used water. Such used water produced on the location of RET installations is *domestic used water* from human activities (directly discharged into the city drainage or collected and transported to a station treating urban used water, then is discharged on ground or in terrestrial waters), *rainwater* collected in the oil-containing equipment tanks and in concreted manholes storing waste and equipment (can contain oil from leaks) which are mechanically treated in water - oil separators and discharged in the city drainage or collected and transported to a station treating urban used water or discharged on ground or in terrestrial waters observing the maximum admissible limits for pollutants disposed in the environment.

- **Generating waste**

No direct waste results from electricity transmission. Waste comes from construction and maintenance activity, as well as from human actions. Waste quantities are different from one year to another, depending on the volume of investment and maintenance work.

The generated waste was disposed of/ capitalised by means of licensed companies.

(radiointerference). Constructive solutions for high voltage lines and substations provide proper protection against the exposure of living bodies to electromagnetic fields, in order to diminish the environmental impact of such installations.

In accordance with specific studies carried out near the 220 kV and 400 kV overhead lines, the intensitay of the electric field decreases

with distance, so at about 25 – 30 m from line axis the field intensity is zero.

- **Acoustic pollution**

Noise can be produced during construction because of executed work and the operation of equipment and cars. During operation acoustic pollution can come from the noise produced by operation & vibration of RET installations, or by Corona discharges around active conductors.

The noise level of Corona effects, 25 m far from the active conductor ranges from 53 dB during rain and 33 dB in fine weather.

- **Impact over fauna**

The impact over fauna is significant, especially over birds that collide with RET installations or are even electrocuted by such installations found in their migration corridors or protected areas.

The main migration corridors of various types of birds were detected in Banat, Dobrogea and the Danube Delta regions.

- **Impact over vegetation**

The impact on vegetation is determined by the final or temporary land occupation and removal of vegetation exceeding a certain height within the safety areas of RET installations, in order to prevent fires. This impact can be significant only in protected areas.

### Measures to prevent and/or limit the environmental impact

The main measures applied in 2016 to prevent and/or limit environmental impact were:

- Construction and maintenance of drainage networks for domestic used water and/or rainwater;
- Installing water/oil separators to the oil equipment tanks and storage platforms;
- Building concreted platforms for temporary storage of equipment and waste;
- Maintenance of oil or SF<sub>6</sub> equipment to prevent leaks;
- Painting the towers of overhead lines (OHL) using colours fit with the landscape;

- Deforestation/maintenance of OHL safety corridors;
- Restoring/developing the land to bring it to its initial state (when work ends).
- Monitoring the quality of used water from Company substations and offices and proposing solutions to reduce pollution according to requirements of environmental and water management permits.
- Waste collection, sorting, transport and capitalisation/disposal.



## 3.3 mill Lei

### Environmental protection expenses

Total environmental protection expenses were 3.3 mill Lei (about 731 thousand Euro), which were included in operational, maintenance and investment expenses.

In 2016 specific environmental expenses were 0.01663 mill Euro/TWh of transmitted electricity.

#### Compliance with legal requirements

Company managed objectives (269: transformer & connection substations, overhead electric lines, offices etc., licensed or under re-licensing) comply with legal environmental protection requirements, licensing degree being 98.9% (34 permits). In 2016 maintenance and investment operations were according to legal and regulatory requirements (environmental and/or water management endorsements).

Generated waste was managed according to legal requirements and was disposed of/capitalised by licensed companies, thus paying the 45 Lei taxes to the Environmental Fund for emissions from stationary sources. The measures decided by regulatory and control authorities in the environmental protection and water management domain were fully applied, as the Company monitored environmental factors (air, water, soil, noise, electromagnetic field, waste) all along 2015



according to the requirements from regulatory documents for environment and water management.

All the environmental information was accurately and timely reported according to legal and regulatory requirements and those resulting from controls performed by regulatory and control bodies.

In 2016 no environmental protection complaints were registered, the Company fully observed the legislation and regulations for environmental protection and water management.

## Annex 1 - Appointment/recalling acts issued in 2016

### Directorate

- SB decision 46/24.05.2016
  - Approving the end of Mr Ion Smeeianu's capacity of member in the Directorate of the National Power Grid Company Transelectrica SA beginning with 26 May 2016, by the parties' agreement.
- SB decision 47/ 24.05.2016
  - Mr Luca-Nicolae Iacobici is appointed member in the Directorate of the National Power Grid Company Transelectrica SA.
- SB decision 49/ 24.05.2016
  - Approving the end of Mr Catalin Lucian Chimirel's capacity of member in the Directorate of the National Power Grid Company Transelectrica SA beginning with 26 May 2016, by the parties' agreement.
- SB decision 86/ 23.11.2016
  - Mr Mircea-Toma Modran is appointed member in the Directorate of the National Power Grid Company Transelectrica SA beginning with 01.01.2017, which mandate is granted for the time interval left until expiry of the replaced member's mandate, namely 16 September 2017.
  - Ascertaining the end of Mr Luca-Nicolae Iacobici's mandate contract beginning with 23 November 2016

## Supervisory Board

- SB decision 4/6.01.2016
  - Mr Daniel-Cristian Pirvulescu is appointed member in the Nomination and Remuneration Committee.
  - Mr Radu Stefan Cernov is replaced by Mr Costin Mihalache in the capacity of Chairman of the Nomination and Remuneration Committee.
  - Mr Daniel-Cristian Pirvulescu is designated member in the Audit Committee.
  - Mr Dragos-Corneliu Zachia-Zlatea is appointed chairman of the Energy Security Committee.
- SB decision 36/23.03.2016
  - Mr Dragos-Corneliu Zachia-Zlatea is appointed in the capacity of Chairman of the Supervisory Board.
- SB decision 77/3.10.2016
  - Mr Dorin-Alexandru Badea is designated member in the Nomination and Remuneration Committee.
  - Mr Dorin-Alexandru Badea is appointed member in the Audit Committee.
  - Mr Manuel Costescu is appointed member in the Energy Security Committee.
- SB decision 87/14.12.2016
  - Acknowledging Mr Manuel Costescu's resignation from his capacity of member in the Supervisory Board of the National Power Grid Company Transelectrica SA, beginning with 13 December 2016.
- HAGOA 5/ 30.08.2016
  - Messrs Sorin Alexandru BADEA and Manuel COSTESCU are elected Supervisory Board members

## Annex 2 - Important contracts the company concluded in 2016

Contract no.	Contractual object	Term	Type of contract	Procedure	Lei value at signature
C 57/2012 AA 10	Addendum 10 to contract C 57/2012 "strategic services/work in the installations managed by Transelectrica"	Term : 6 months	Services	Negotiation, no participation announcement	42,998,419
C 199/2016	Refurbishing the 220/110 kV substation Turnu Severin Est	Term : 32 months	Work	Open bid	42,660,000
C 174/2016	Refurbishing the 400 kV substation Isaccea – Replacing the shunt reactors, related bays and the 400 kV bay Stupina	Term : 32 months	Work	Open bid	30,498,360
C 14/2016	Procurement of medium and high voltage primary equipment (framework agreement)	Term : 36 months	Supply	Open bid	28,733,500
C 216/2016	Upgrading the 220/110/20 kV transformer substation Arefu	Term : 36 months	Work	Open bid	24,171,705
C 99/2016	Upgrading the 220/110 kV substation Dumbrava	Term : 36 months	Work	Open bid	20,500,000
C 259/2016	Upgrading the 220/110 kV transformer substation Raureni	Term : 24 months	Work	Open bid	16,856,207
C 117/2016	Replacing the components of EMS SCADA AREVA – the software	Term : 24 months	Services	Negotiation, no participation announcement	10,982,383

## Annex 3 - List of Transelectrica subsidiaries

- Trading Company Electricity Market Operator OPCOM SA – J40/ 7542/ 2000 – Bucharest 3, Boulevard Hristo Botev 16-18, code 030236, [www.opcom.ro](http://www.opcom.ro);
- Trading Company for Maintenance Services to the Electricity Transmission Grid SMART SA – J40/ 8613/ 2001 – Bucharest 1, Boulevard General Gheorghe Magheru 33, code 010325, [www.smart-sa.ro](http://www.smart-sa.ro);
- Trading Company for Telecommunication and IT Services in Electricity Transmission Grids TELETRANS SA – J40/ 12511/ 2002 – Bucharest 3, Boulevard Hristo Botev 16-18, code 030236, [www.teletrans.ro](http://www.teletrans.ro);
- Trading Company Training Romania's Power Engineers FORMENERG SA – J40/ 2265/ 2002 – Bucharest 4, Boulevard Gheorghe Sincai 3, code 040311, [www.formenerg.ro](http://www.formenerg.ro);
- Trading Company Subsidiary ICEMENERG - SERVICE SA – J40/ 11414/ 2003 – Bucharest 3, Boulevard Energeticienilor 8, code 032092, [www.icemenerg-service.ro](http://www.icemenerg-service.ro)

### List of persons affiliated to the trading company

#### 1. Company subsidiaries:

- OPCOM;
- TELETRANS;
- SMART;
- FORMENERG;
- ICEMENERG-SERVICE.

#### 2. All the companies with majority state capital which the Compania concluded regulated contracts on the energy market with.

All contracts concluded with affiliated persons amounting to more than 50,000 Euro were reported under Current Reports, according to legal provisions.

## Annex 4 – Litigation

On 31.12.2016 the Company was involved in the following disputes, amounting to more than 100,000 Euro (454,110 Lei, NBR course):

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
1	7238/120/2012	Debtor: SC ECO Energy SRL Creditor: Transelectrica	Insolvency procedure Joint-stock companies – upon the debtor's request	Recorded in the creditors' table with <b>24,736,065.84 Lei</b>	<b>T: 13.03.2017</b>
2	41911/3/2014 41911/3/2014*	Claimant: Transelectrica Defendant I.: SC Gallup Organization Romania SRL Defendant II.: Stelian Baicusi and others	Claims	<b>4,958,587.72 Lei</b>	Settlement in brief: Admits the exception of functional incompetency of Bucharest Tribunal's section VIII. Referring the file to the registration office from the civil sections of Bucharest Tribunal. No appeal. Pronounced at public hearing, today 19.02.2015. Doc.: Conclusion (disinvestment) 19.02.2015  <b>17.10.2016</b> Denies the suing of defendant The Gallup Organization Romania SRL as groundless; admits the exception of demand inadmissibility against defendants Stelian Alexandru Iuliu Gal and Adrian Baicusi and Maciuceanu Mihaela. Denies the request. Admits partly the law suit expenses expressed by The Gallup Organization Romania SRL and obliges the claimant to pay 12,500 Lei as law suit expenses, representing the lawyer's fee to this defendant. Appeal in 30 days from notification; the appeal is submitted to Bucharest Tribunal section VI civil. Pronounced at public hearing Document: Judgment 6508/2016 17.10.2016
3	17284/3/2015	Claimant: SC Dagesh Rom SRL Defendant: Transelectrica	Claims	<b>2,784,950 Lei + 168,500 Lei</b>	<b>T: 15.11.2016.</b> Denies the request - Settlement in brief: 1. Admits the exception of prescription with respect to claims represented by: - rent differences asked for 04.03.2012 - 12.05.2012; - penalties associated to the sums requested as rent difference calculated for 04.03.2012 - 12.05.2012; - service fee difference requested for 04.03.2012 - 12.05.2012; - penalties associated to the sums requested as service fee difference calculated for 04.03.2012 - 12.05.2012. Denies such claims as prescribed. 2. Denies the other claims as groundless. 3. Obliges the claimant to pay 2,250 Lei as law suit expenses. 4. Appeal within 30 days from notification, to be submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing today 15.11.2016. Judgment 7230/2016

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
4	873/1259/2008	Creditor: DGFP, Transelectrica Debtor: SC Termoficare 2000 Pitesti SA	Insolvency procedure	Request to be recorded in the creditors' list with 641,673.13 Lei	<b>Term</b> to continue the (reorganisation) procedure: <b>03.05.2017</b>
5	29322/3/2014	Debtor under insolvency: SC ENNET GRUP SRL Creditor: Transelectrica	Insolvency procedure	Request to be recorded in the creditors' list with <b>3,277,527.03 Lei</b>	<b>T: 03.04.2017</b>
6	47478/3/2012 170/3/2014 47478/3/2012*/a1	Debitoare în insolvență: SC PETPROD SRL Creditor: Transelectrica	Insolvency procedure Joint-stock companies – upon the debtor's request	<b>24,013,312.82 Lei</b>	We have been recorded in the creditors' list of debtor SC PETPROD SRL with 24,013,312.82 Lei of which 11,595,501.88 Lei in the category "sum admitted under conditions", specifying that "the sum admitted under condition is subject of dispute under file 49.134/3/2012, on the docket of Bucharest Tribunal" <b>Term: 07.03.2017</b>
7	5302/2/2013	Defendant: Transelectrica, ANRE  Claimant: Conaid Company	Administrative dispute  Acknowledging unjustified refusal to conclude and sign RET connection addendum and/or contract, obligation to sign addendum and/or contract for RET connection	Obligation to pay the amounts of <b>722,756,000 Euro</b> , representing un-obtained profit as per the business plan, and <b>17,419,508.07 Lei</b> – actual expenses recorded in accounts	In accordance with article 413 par 1 item 1 from the Civil procedural code, it suspends judging the case; appeal during all term of suspension. The appeal is submitted to the Court of Appeal Bucharest. Pronounced at public hearing today, 24 June 2014. Document: Conclusion - Suspension 24.06.2014. <b>Settlement:</b> Admits the appeal; admits the appeal with cancellation; decides re-referral to court  <b>Settlement details:</b> Ruling 2148/29.06.2016. Denies the exceptions invoked by the recurrent-claimant SC Conaid Company SRL, by judiciary administrator RVA Insolvency Specialists SPRL and by the recurrent-defendant National Power Grid Company Transelectrica SA. Admits the appeal of defendant National Power Grid Company Transelectrica SA against the hearing conclusion of 18 February 2014 and of the civil sentence 1866 of 11 June 2014, pronounced by the Appeal Courte Bucharest – Section VIII administrative and fiscal. Cancels the conclusion appealed against and refers the case to Bucharest Tribunal, Section VI civil for settlement of the claimant's proceedings in contradiction with the National Power Grid Company Transelectrica SA. Maintains the other stipulations of the sentence with respect to the claimant's suit against the National Regulatory Authority in the Energy domain. Denies the appeals instituted by claimant SC Conaid Company SRL, by its judiciary administrator RVA Insolvency Specialists SPRL and by the third party SC Duro Felguera SA against civil sentence 1866 of 11 June 2014, pronounced by the Appeal Court Bucharest – Section VIII administrative and fiscal. Denies the appeal filed by the National Power Grid Company Transelectrica SA against the hearing conclusion of 25 March 2014, pronounced by the Appeal Court Bucharest – Section VIII administrative and fiscal. Final. Pronounced at public

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
					hearing today, 29 June 2016.
8	8207/62/2011	Debtor under insolvency: CET SA Brasov Creditor: Transelectrica	Insolvency procedure	Recorded in the creditors' list with <b>4,303,741.44 Lei</b>	<b>T: 04.05.2017</b>
9	22846/301/2012 49134/3/2012 separated 3198/2/2015 Re-registered for retrial under no. 44223/3/2016	Claimant : Petprod SRL Defendant : Transelectrica	Claims	<b>11,328,252.77 Lei</b>	<p><b>T: 06.12.2012</b> Settlement: Admits the exception of the law court's material incompetence. Declines the settlement competence of this case in favour to Bucharest Tribunal. Irrevocable. Pronounced at public hearing today, 06.12.2012.</p> <p><b>T: 26.09.2013</b> Settlement: Denies as groundless the inadmissibility exception. Admits the exception of prematurity of main request. Decides term on 7.11.2013, summoning the parties; appeal together with the fundamental case.</p> <p><b>T: 28.11.2013</b> Settlement: Denies the main request as prematurely expressed. Admits part of the re-conventional request. Obliges the appealed claimant Petprod to pay 21,701,281.92 Lei to the appealing claimant Transelectrica. Obliges the appealed defendant to pay to appealing claimant Transelectrica the sum of 221,128.82 Lei as law suit expenses. Appeal within 15 days from notification.</p> <p><b>T: 26.05.2015</b> Settlement: Admits the appeal filed by the plaintiff in appeal SC PETPROD SRL against the conclusion of 26.09.2013. Cancels in part the conclusion appealed against and refers the case to re-trial by the same law court, to settle the main request. Maintains the other provisions of the conclusion. Separates the judgment of appeals filed by the parties against civil sentence 6799/2013 pronounced by Bucharest Tribunal - Section VI Civil. According to article 36 of Law 85/2006. Suspends the judgment of appeals filed by the parties against the civil sentence 6799/2013. Final. Appeal right within 15 days from notification.</p> <p>Filed appeal Settlement: In accordance with article 36 from Law 85/2006. Suspends judging the appeals filed by the parties against civil ruling 6799/2013. Final, with appeal right within 15 days from notification.</p> <p><b>T : 20.09.2016 – CAB maintains the suspension</b></p>



	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
					<b>T : 08.03.2017</b>
10	8307/121/2013	Claimant : Transelectrica Defendant : Arcelormittal Galati	Fund – claims  1,041,115.92 Lei representing delay penalties calculated in 31.10.2010-31.12.2011 associated to the main debit amounting to 6,109,835.19 Lei		<p><b>T: 27.11.2015</b></p> <p>Settlement: Partly admits the suit for 'claims' filed by claimant National Power Grid Company Transelectrica SA in contradiction with defendant SC Arcelor Mittal Galati SA and consequently- obliges the defendant to pay the sum of 1,041,115.92 Lei to the claimant representing delay penalties calculated for 31.10.2010-31.12.2011 to the main debit of 6,109,835.19 Lei. Denies the claims suit with respect to 2,291,858.28 Lei, as written off; obliges the defendant to pay 16,826.68 Lei to the claimant as law suit expenses. Appeal within 30 days from notification; the appeal is filed with Galati Tribunal under nullity sanction.</p> <p>Pronounced on: 24.03.2016</p> <p>Civil ruling 68/A denies as groundless the appeal filed by the claimant National Power Grid Company Transelectrica SA Bucharest against the hearing conclusion of 30.10.2015 and the civil sentence 372/27.11.2015, both pronounced by Galati Tribunal. Appeal right.</p> <p><b>T:24.03.2016</b></p> <p>Civil ruling 68/A denies as groundless the appeal filed by the claimant National Power Grid Company Transelectrica SA Bucharest against the hearing conclusion of 30.10.2015 and the civil sentence 372/27.11.2015, both pronounced by Galati Tribunal. Appeal right.</p> <p><b>T: 17.01.2017</b></p> <p>Admits in principle the appeal filed by the recurrent-claimant National Power Grid Company Transelectrica SA against civil ruling 68/A of 24.03.2016, pronounced by the Court of Appeal Galati, Section I Civil. Sets <b>28.03.2017</b> as appeal settlement date. The parties will be summoned.</p>
11	53186/3/2011	Debtor under insolvency: ALSO ENER Creditor: Transelectrica	Insolvency procedure	Request to be recorded in the creditors' list with <b>7,177,245.74 lei</b>	<p><b>T: 10.10.2012</b></p> <p>Settlement: In accordance with article 131 from law 85/2006, decides closing the insolvency procedure against SC ALSO ENER SRL - Bucharest 3, STR. MORILOR 11, app. 3. In accordance with article 135 of this law, the sentence to close the procedure will be notified to DGFPMB to make the mention. Decides the cancellation of debtor company from the ORCB. Decides payment of 2,060 Lei, VAT free to judiciary liquidator Manta and Associates SPRL, representing</p>

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
					remuneration/procedure expenses from the special liquidation fund provided by article 4 par 4 of law 85/2006. Appeal within 7 days from notification. Pronounced at public hearing today, 10.10.2012. Liquidated and cancelled.
12	24021/3/2008	Debtor under insolvency: SC Imobiliar Construct SRL Creditor: Transelectrica	Insolvency procedure	Request to be recorded in the creditors' list with <b>938.299,30 lei</b>	<b>T: 24.04.2012</b> Settlement: Approves the final Activity Report and according to article 132 par 2 of Law 85/2006 closes the insolvency procedure against debtor SC Imobiliar Construct SRL. Cancels the debtor company from the Commercial Register of Ilfov. In accordance with article 135 of this law, the sentence to close the procedure will be notified to the General Directorate of public finance Ilfov and to the Office of the Commercial Register Ilfov, to make the mention. Appeal within 7 days from notification. Liquidated and cancelled.
13	3372/2/2014 reparation SEPARATED FROM FILE 5302/2/2013	Claimant : Conaid Company Defendant : Transelectrica, ANRE	Administrative dispute Acknowledging unjustified refusal to conclude and sign RET connection addendum and/or contract, obligation to sign addendum and/or contract for RET connection	Obligation to pay the amounts of <b>722,756,000 Euro</b> , representing un-obtained profit as per the business plan, and <b>17,419,508.07 Lei</b> – actual expenses recorded in accounts	<b>T: 24.06.2014</b> Settlement: In accordance with article 413 par 1 item 1 from the Civil procedural code, it suspends judging the case; appeal during all term of suspension. The appeal is submitted to the Court of Appeal Bucharest.
14	5595/120/2010	Claimant : Transelectrica Defendant: SC Eco Energy SA	Claims	<b>16,604,203.24 Lei</b>	<b>T: 26.09.2014</b> In accordance with the provisions of article 36 from Law 85/2006, it suspends judging the case.
15	40814/3/2014	Claimant : OPCOM SA Defendant: Transelectrica	Claims	582,086.31 Euro (2,585,161.72 Lei) + 84,867.67 Lei as interest	<b>T: 24.07.2015</b> Settlement: Admits the suing file of claimant Electricity and Natural Gas Market Operator OPCOM SA in contradiction with defendant National Power Grid Company Transelectrica SA. Obliges the defendant to pay 582,086.31 Euro, representing the sum the claimant paid instead of the defendant from the fine of 1,031,000 Euro applied by Decision of the European Commission on 05.03.2014 in the AT.39984 case, plus legal interest to such 582,086.31 Euro, calculated on 11.06.2014 until actual payment. Obliges the defendant to pay 37,828.08 Lei as law suit expenses; appeal right within 30 days from notification. The appeal is filed with the Bucharest Tribunal, Section VI Civil.

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
					<b>Term: 10.10.2016</b> Settlement in brief: Admits the appeal. Changes the entire civil sentence appealed against, namely it denies the suing as groundless. Obliges the claimant plaintiff in appeal to pay 16129.49 Lei law suit expenses, being judiciary stamp fee. Appeal within 30 days from notification. Pronounced at public hearing.
16	1284/101/2015 24206/3/2015	Claimant: RAAN Defendant: Transelectrica	Claims	<b>11,637,439.66 Lei</b>	<b>T: 22.05.2015</b> Settlement: Admits the exception of territorial incompetency. Declines ruling competency in favour of Bucharest Tribunal, Section VI Civil. No appeal. <b>T: 03.11.2015</b> Settlement: Admits the request as supplemented. Obliges the defendant to pay 17,805,680.17 Lei to the claimant, as amount of the bonus and penalties. Denies the claimant's request to grant law suit expenses as groundless. Appeal right within 30 days from notification, to be filed with Bucharest Tribunal, Section VI-a Civil. <b>T: 12.01.2017</b>
17	7566/101/2014 26024/3/2015	Claimant: RAAN Defendant: Transelectrica	Claims	<b>10,048,628.86 Lei</b>	<b>T: 04.02.2015</b> Settlement: Admits the case; appeal within 30 days from notification. <b>T: 30.06.2015</b> Settlement: Admits the appeal. Cancels the sentence and refers the case to Bucharest Tribunal - Section VI Civil for settlement. Final. <b>T: 28.11.2016</b> Settlement: Suspends the case as per article 413 (1) NCPC against article 411 (1) NCPC. Appeal as per article 414 (2) NCPC. Pronounced at public hearing.
18	4569/107/2015	Claimant: Transelectrica Defendant: ROMENERGY INDUSTRY SRL	Claims	<b>11,881,453.01 LEI</b>	<b>T: 09.06.2016</b> Settlement: Admits the civil case filed by claimant CNTEL Transelectrica SA with the correspondence address to communicate procedural documents in Bucharest against defendant SC Romenergy Industry SRL and consequently: - Obliges the defendant to pay 10,608,353.71 Lei as claims to the claimant. - Obliges the defendant to pay 122,419.53 Lei as judiciary expenses. Appeal right within 30 days from notification. Pronounced at public hearing of 9 June 2016 according to the terms of article 396 from the Civil Procedural Code
19	4486/121/2015	Claimant: Transelectrica Claimant: SC ARCELORMITTAL GALATI SA	Claims	<b>2,671,266.50 Lei</b>	<b>T: 01.04.2016</b> Settlement: Admits the prescription exception only with respect to the delay penalties calculated for 01.01.2012-23.03.2012, inclusive, included in invoice 13760/26.11.2014. Denies the exception of inadmissibility as groundless. Admits in part the suing. Obliges the defendant to pay 2,656,221.60 Lei as the value of penalty invoices. Denies the other claims based on article 453 Civil procedural code, obliges the defendant to pay 30,167.22 Lei as law suit expenses; appeal within 30 days from notification. Pronounced at public hearing today.

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
					<p><b>T: 13.05.2016</b> Settlement: According to article 442 Civil procedural code corrects the material error occurred in civil sentence 113/01.04.2016 of Galati Tribunal, namely instead of 2,656,221.60 Lei the defendant was obliged to pay as the value of penalty invoices, the actual correct amount of 2,468,419 Lei will be inscribed, and instead of 30,167.22 Lei representing law suit expenses the defendant was obliged to pay, the actual correct sum of 28,289.19 Lei will be written. Appeal within 30 days from notification.</p> <p><b>T: 26.09.2016</b> Filed appeal: CIVIL RULING 151/A Denies as groundless the appeals filed against civil sentence 113/2016 and the conclusion of 13.05.2016 in file 4486/121/2015 of Galati Tribunal, Section II Civil.</p> <p>Filed appeal The case is under screening. The first judgment term will be later set</p>
20	43152/3/2014	Debtor under insolvency: SC ICPE Electrocond SA Creditor : Transelectrica SA	Insolvency procedure	Request to be recorded in the creditors' list with <b>2,705,330.98 Lei</b>	<b>T: 24.04.2017</b>
21	6473/111/2013	Debtor under insolvency: SC Electrocentrale Oradea Creditor: Transelectrica SA	Insolvency procedure	Request to be recorded in the creditors' list with <b>641,673.13 Lei</b>	<b>Term</b> to continue the (reorganisation) procedure: <b>03.05.2017</b>
22	1867/90/2010	Debtor under insolvency: SC Total Electric Oltenia SA Creditor: Transelectrica SA	Insolvency procedure Joint-stock companies – upon the debtor's request	Recorded in the creditors' table with <b>14,085,415.27</b>	<b>T: 15.03.2017</b>
23	6657/2/2012	Claimant : Transelectrica SA Defendants: National fiscal administration agency- General directorate managing large tax payers; National fiscal administration agency - General directorate settling contestations	Administrative and fiscal disputes	<b>43,487,408 Lei</b>	<p><b>T: 30.04.2014</b> Settlement: Denies the case as groundless. Appeal within 15 days from notification.</p> <p><b>T: 16.06.2016</b> Filed appeal. Settlement: Admits the request and places again the recurrent-claimant within the appeal filing term. Denies the appeal filed by the National Power Grid Company Transelectrica against Sentence 1365 of 30 April 2014 of the Appeal Court Bucharest, Section VIII administrative and fiscal, as groundless. Final. Pronounced at public hearing.</p>

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
24	18499/3/2013	Claimant: Popescu Mina Defendant: Transelectrica SA	Claims	<b>1,500,000 Lei</b>	<b>T: 24.11.2015</b> Settlement: Denies the request to supplement the evidence by valuating technical expertise as unusual for the case. Qualifies the exceptions of absence of active court quality, absence of passive court quality and the inadmissibility as fundamental defences. Denies the case as groundless. Appeal right within 30 days from notification
25	3269/3/2015	Claimant : Transelectrica Defendant SC Company for maintenance services to the electricity transmission grid SMART SA	Claims	<b>566,773.42 Lei</b>	<b>T: 25.11.2015</b> Settlement: In accordance with article 242 par1 Civil procedural code, it suspends judging the case. Appeal right to the hierarchical superior instance during entire suspension term; appeal to be submitted to Bucharest Tribunal, Section VI Civil. <b>T: 09.09.2016</b> Settlement: Denies the appeal as groundless; Pronounced at public hearing. <b>T: 26.10.2016</b> Settlement: continued judgment, Bucharest Tribunal <b>T: 23.11.2016</b> Denies the judgment re-opening request as groundless. Appeal right during entire suspension term; appeal to be submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing.
26	2033/111/2007 2033/111/2007*	Recurrent-reclamant : Transelectrica through the Romanian State + Transelectrica through Cluj branch Intimated-recurrents: Mihes Cristian Radu, Mihes Marius-Tudor, Popa Florica Loredana, Corb Erika, Luca Ionuț-Bogdan, Luca Viorica, Recurrent defendants: Mester Lavinia Eugenia, Mester Traian Recurrent: Prosecutor's office from the Appeal Court Oradea	Appeal Expropriation, Law 33/1994	Expropriation, Law 33/1994 Damages <b>275,310 EURO</b>	<b>T: 26.04.2016</b> Settlement in brief: Admits as grounded the civil appeal introduced by the plaintiffs in appeal - defendants Mester Traian and Mester Lavinia Eugenia and the adhesion request to the appeal from claimant CNTEE TRANSELECTRICA SA BUCHAREST by CNTEE TRANSELECTRICA SA, TRANSMISSION BRANCH CLUJ, representing the Romanian State in contradiction with intimated recurrences Luca Viorica, Luca Ionut-Bogdan, Mihes Cristian Radu of Oradea, Mihes Marius-Tudor, Popa Florica-Loredana and Corb Erika, against civil sentence 628 of 20 September 2007 pronounced by Tribunal Bihor, which it partly changes as such: It finds the real estate in kind representing out-city arable land of 636 m2, under new cadastre no. 12779 consisting of old cadastre no. 8630/19 written in CF NDF 7648 Oradea the defendant's property is impacted by the building of the 400 kV trans-European electric line Oradea – Bekecsaba – tower Decides expropriation for public utility of national interest of this real estate of 636 m2 instead of 50 m2 and determines reparations to 5088 Euro instead of 477 Euro, sum payable in Lei at the official exchange rate of the actual payment date. Decides in-tabulating the Romanian State's property right in the cadastre register for the 636 m2 of the fore-mentioned real estate as expropriation title instead of 50 m2. Admits the intervention requests in the interest of the plaintiffs in appeal Mester Traian and Mester Lavinia Eugenia, formulated by accessory recurrent: LUCA VIORICA,

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
					<p>LUCA IONUT-BOGDAN, MIHES CRISTIAN RADU, MIHES MARIUS-TUDOR, POPA FLORICA-LOREDANA and CORB ERIKA. Maintains the rest of the appealed sentence. Obliges the appealing claimant NATIONAL POWER GRID COMPANY TRANSELECTRICA SA BUCHARESTI by CNTEE TRANSELECTRICA SA, TRANSMISSION BRANCH CLUJ to pay 1500 Lei, law suit expenses in appeal to the intervening intimated party Luca Viorica. FINAL. Appeal within 15 days from notification.</p> <p><b>Filed appeal</b>  <b>T: 27.10.2016</b>  Ruling 2055: Denies the appeal nullity exception declared by recurrent-defendants Mester Lavinia Eugenia and Mester Traian. Admits the appeals filed by the recurrent - claimant National Power Grid Company TRANSELECTRICA SA Bucharest representing the Romanian State and by the recurrent-defendants Mester Lavinia Eugenia and Mester Traian against ruling 375 of 26 April 2016, pronounced by the Appeal Court Oradea, Section I civil. Annuls the appealed ruling and sends the case for re-judgment to the same appeal courts. Irrevocable.</p>
27	17688/3/2015	SC PETPROD SRL contestator Transelectrica SA - creditor	Contestation to the preliminary table TRANSELECTRICA SA (PETPROD SRL)		<b>T: 07.03.2017</b>
28	17287/3/2015	SC PETPROD SRL - debtor Transelectrica SA - contestator	Contestation to the preliminary table (national power grid company transelectrica sa)		<b>T: 07.03.2017</b>
29	13956/3/2016	<input checked="" type="checkbox"/> SC Proiect Consulting SRL - Claimant <input checked="" type="checkbox"/> NATIONAL POWER GRID COMPANY TRANSELECTRICA SA : defendant	Claims – return of performance bond, damages, interest rates	<b>101,387.74 Lei,</b> performance bond <b>8,993.37 Lei,</b> interest rates <b>394,335.63 Lei,</b> damages	<b>T: 20.09.2016</b> Denise the case as groundless. Pronounced at public hearing. Proiect Consulting filed appeal, which was notified on 16.12.2016 to respond in 30 days <b>T: 13.01.2017</b>
30	2177/99/2012/a40 2177/99/2012	CET SA Iasi – debtor under insolvency Transelectrica SA - Creditor	Insolvency procedure	Recorded in the creditors' table with <b>1,935,308.24 Lei</b>	<b>T : 01.02.2017</b>

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
31	2183/115/2010	CET ENERGOTERM RESITA SA– debtor under insolvency Transelectrica SA - Creditor	Insolvency procedure	Recorded in the creditors' table with <b>1,516,714.71 Lei</b>	<b>T: 09.03.2017</b>
32	9089/101/2013/a 152	RAAN – debtor under bankruptcy Transelectrica SA - Creditor	Bankruptcy procedure	Request to be recorded in the creditors' list with <b>89,360,986.06 Lei</b>	<b>T: 02.02.2017</b>
33	4328/110/2013	CET SA Bacau – debtor under insolvency Transelectrica SA - Creditor	Insolvency procedure	Request to be recorded in the creditors' table with <b>1,484,636.78 Lei</b>	<b>T: 25.05.2017</b>
34	3843/121/2014	SC Electrocentrale Galati SA – debtor under insolvency Transelectrica SA - Creditor	Insolvency procedure	Request to be recorded in the creditors' table with <b>161,421.04 Lei</b>	<b>T: 15.05.2017</b>
35	20190/3/2015	Claimant : Transelectrica Defendant: SC Dagesh Rom SRL Parat: Adrian Baicusi	Claims	<b>1,353,963.60 Lei + interest</b>	<b>T: 06.05.2016</b> Settlement in brief: Suspends the case for failure to fulfill the obligations retained on the claimant's behalf. Appeal during the entire suspension term; pronounced at public hearin. <b>T: 13.01.2017</b>
36	3616/101/2014	Claimant: RAAN Defendant: Transelectrica	Claims	<b>1,090,831.70 Lei</b>	<b>T : 10.10.2014</b>  Settlement in brief: Admits the case. Obliges the defendant to pay 1,090,831.70 Lei as amount of invoice 1300215/31.12.2013 to the claimant. Takes notice the claimant requested no law suit expenses. Appeal right within 15 days from notification, to be submitted to Mehedinti Tribunal. Pronounced at public hearing. <b>T: 05.11.2015</b>  Settlement in brief: DEC: A.R. Denies the appeals as of no interest. Appeal right within 30 days from notification, to be submitted to the Appeal Court Craiova. Filed appeal  <b>T:21.03.2017</b>

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
37	45397/3/2015	C: Transelectrica  D: TRADING COMPANY OET - OBEDIENI ENERGIINI TARGOVTSI OOD – BUCHAREST SUBSIDIARY	Claims	<b>637,206.01 Lei</b>	<b>T: 24.06.2016</b>  Settlement: Admits partly the prescription, admits partly the suing. Obliges the defendant to pay 636,842.31 Lei. Obliges the defendant to pay 9,973.42 Lei as law suit expenses. Appeal right within 30 days from notification, to be submitted to Bucharest Tribunal, Section VI Civil. Placed at the parties' disposal by the registry  <b>T: 28.07.2016</b>  Settlement in brief: Admits the request to correct the material error. Decides correcting the material error out of considerations and dispositions of civil sentence 3956 of 24.06.2016 pronounced by Bucharest Tribunal, Section VI Civil, in the sense the amount of law suit expenses the defendant was obliged to pay is 13,501.56 Lei instead of 9,973.42 Lei, as wrongly mentioned initially. Appeal right within 30 days from notification, to be submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing.  Filed appeal
38	627/107/2016	C: Transelectrica  D: ROMENERGY INDUSTRY SRL	Claims	<b>1,748,339.29 Lei</b>	<b>T: 21.09.2016</b>  Settlement in brief: Suspended the case according to article 75 of Law 85/2014
39	7226/3/2016	Defendant : Energy Holding  Claimant : Transelectrica	Claims	<b>1,073,561.72 Lei</b>	<b>T: 16.09.2016</b>  Settlement: Admits in part the suing, restricted and amended. Obliges the defendant to pay 1,050,000 Lei as price of provided services according to fiscal invoice 6080 and 23.11.2015 and 14,129.79 Lei as delay penalties. Obliges the defendant to pay 14,916.48 Lei as law suit expenses. Appeal right within 30 days from notification, to be submitted to Bucharest Tribunal, Section VI Civil.  Filing appeal.  <b>T: 14.03.2017</b>



	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
40	9089/101/2013/a140	Claimant: Transelectrica Defendant: RAAN	Claims	<b>86,513,430.37 Lei</b>	Settlement: Suspended until settling file 3014/2/2014, pertaining to appeal - cancelling ANRE decision.
41	5194/97/2015	Energy Complex Hunedoara – debtor under insolvency  CNTEE Transelectrica SA - Creditor	Insolvency procedure	Request to be recorded in the creditors' table with <b>4,951,622.65 Lei</b>	<b>T: 23.06.2016</b>  Request admitted by judiciary administrator Euroinsol SPRL. Transelectrica was recorded in the Preliminary table with liability of 4,951,822.65 Lei owed on 23.06.2016 – date when the insolvency procedure was instituted.  The Appeal Court Alba Iulia decided annulling the sentence of Deva Tribunal regarding opening the insolvency procedure.  A new request to open the insolvency procedure was submitted, which solution is suspended of.
42	6606/3/2016	Sandu Leonard – claimant  Transelectrica - defendant	Claims	<b>424,485 Lei</b>	<b>T: 19.07.2016</b>  Settlement: Admits the request. Obliges the defendant to pay 424,485 Lei to the claimant representing value of options for virtual Transelectrica shares as performance bonus plus legal interest calculated from maturity date: 14.02.2014- to the actual payment date. Obliges the defendant to pay 11,949 Lei as law suit expenses to the claimant. Appeal within 30 days from notification.
43	1396/90/2016	Transelectrica – creditor  CET Govora - debtor	Request to be recorded in the creditors' list, PT	<b>28,200,440.31 Lei</b>	Settlement: CNTEE Transelectrica SA was registered in the preliminary table with total liability of 28,200,440.31 Lei, according to our company's request. Mention should be made the liability of 21,962,243.71 Lei, meaning principal and penalties under invoice 8116/08.04.2016, has been recorded under suspensive condition of pronounced final judgment in favour of ANRE under file 2428/2/2014 on the docket of the Appeal Court Bucharest, pertaining to cancelling Decision 738/28.03.2014 of ANRE.

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
44	1196/93/2016	Transelectrica – claimant UGM Energy Trading - defendant	Claims	<b>3,422,293.07 Lei</b>	<b>T: 20.09.2016</b> Settlement: In accordance with article 75 par 1 of Law 85 / 2014 regarding insolvency, finds the lawful suspension of judgment.
45	1705/93/2016/A2	UGM Energy Trading SRL – debtor under insolvency	Claims	<b>3,515,687.51 Lei</b>	<b>T:29.06.2016</b> Settlement: opening the general insolvency procedure. <b>T: 14.08.2016</b> Settlement: term to submit liability statement. The liability was admitted in quantum of 3,515,687.51 Lei, representing the value of invoices issued by our company for services provided to debtor UGM Energy Trading SRL, calculated by 29.06.2016, when the general insolvency procedure was initiated; the liabilities amounting to 200 Lei and 41,331.59 Lei claimed by our Company as judiciary stamp fees were denied. Submitting contestation. <b>T contestation: 09.02.2017</b>
46	2088/107/2016	R: Transelectrica - creditor P: ROMENERGY INDUSTRY SRL - debtor	Request to be recorded in the creditors' list	<b>16,112,165.18 Lei</b>	<b>T: 30.06.2016</b> Settlement: opening the general insolvency procedure. <b>T: 16.08.2016</b> Settlement: The entire amount was admitted. <b>T: 12.09.2016</b> Settlement: Postpones the case: Setting the 14.11.2016, 9:00 h as new term, in order to settle the appeal filed against the conclusion of opening the bankruptcy procedure, registered with the Appeal Court under no. 2088/107/2016/a1, as well as in order to elaborate the report on the causes and circumstances leading to the debtor's insolvency with a view to continue the bankruptcy procedure, draw up the final liability table and make the inventory of debtor's assets

	File no. and date	Disputing parties and their capacity	File subject	Disputed value	Terms of judgment/settlement
					<b>T: 22.05.2017</b>
47	35304/3/2016	Debtor: Electrocentrale Bucuresti SA Creditor : Transelectrica SA	Request to be recorded in the creditors' list	<b>2,286,832.15 Lei</b> (1,739,926.66 Lei is not compensated)	Settlement in brief: Admits the request of debtor SC ELECTROCENTRALE BUCHAREST SA seated in Bucharest 6, Splaiul Independentei 227, registered in the Commercial Register of Bucharest Tribunal under J40/1696/2003, Single registration (fiscal) code 15189596. According to article 71 par 1 of Law 85/2014 on the procedures preventing insolvency and insolvency, opens the general procedure against debtor SC ELECTROCENTRALE BUCHAREST SA. Sets the following deadlines : a) deadline for creditors to submit their opposition to the opening of the procedure - 10 days from notification, as well as opposition settlement term that will not exceed 5 days from the expiry date of their submission; b) deadline to record the demand to have one's liabilities admitted over the debtor's assets – 08.12.2016; c) deadline to check up the liabilities, to draw up and publish the preliminary liability table in the Bulletin of Insolvency Procedures –05.01.2017; d) deadline to finalise the liability table – <b>02.02.2017</b> ; <b>T: 19.01.2017</b>
48	40958/3/2016	Claimant : Transelectrica Defendant: TRADING COMPANY OF MAINTENANCE SERVICES TO THE ELECTRICITY TRANSMISSION GRID SMART SA	Claims	<b>2,797,095.21 Lei</b> , VAT included + <b>1,211,694.26 Lei</b> accessories	Under preliminary procedure. No hearing date was set.

## Annex 5 - Glossary

<b>ANRE</b>	National Regulatory Authority in Electricity
<b>BAR / RAB</b>	Regulated asset base
<b>BVB</b>	Bucharest Stock Exchange (BSE), operator of the regulated market where the shares are transacted
<b>CCM</b>	Collective labour contract, Company-wide
<b>CEE / EEC</b>	European Economic Community
<b>CEE / WPP</b>	Wind power park
<b>CEF / PHPP</b>	Photovoltaic power park
<b>CET / CHPP</b>	Combined heat and power plant
<b>CHEAP</b>	Pumping storage hydropower plant
<b>CNE / NPP</b>	Nuclear power plant
<b>Company, CNTEE</b>	National Power Grid Company Transelectrica SA
<b>CPT</b>	One's own technological consumption (losses)
<b>CS / SB</b>	Supervisory Board
<b>CSR</b>	Corporative social responsibility
<b>d. c.</b>	Double circuit
<b>DEN</b>	National Power Dispatcher
<b>EBIT</b>	Operational profit before interest and income tax
<b>EBITDA</b>	Operational profit before interest, income tax and amortisement
<b>EBT</b>	Operational profit before income tax
<b>EMS-SCADA</b>	Main dispatch infrastructure (Energy Management System – Supervisory Collection And Data Acquisition)
<b>ENTSO-E</b>	European Network of Transmission and System Operators for Electricity
<b>ENS</b>	Energy not supplied to consumers
<b>Euribor, Libor, Robor</b>	Rates of inter-bank interest rates
<b>Formenerg</b>	Trading Company Training Romania's Power Engineers FORMENERG SA
<b>Group</b>	The Company and its subsidiaries
<b>GD 627/ 2000</b>	Governmental Decision 627/2000 on reorganising the National Electricity Company SA, published in Romania's Official Gazette 357 of 31 July 2000
<b>HG</b>	Governmental decision
<b>Icemenerg Service</b>	Trading company subsidiary ICEMENERG-SERVICE Bucharest, subsidiary of the National Power Grid Company Transelectrica SA
<b>IFRS</b>	International Financial Reporting Standards
<b>ISO</b>	Independent System Operator
<b>ITO</b>	Independent Transmission Operator
<b>JPY</b>	Japanese Yen, official currency of Japan
<b>KPI</b>	Key Performance Indicator
<b>LEA / OHL</b>	Overhead lines
<b>Leu or Lei or RON</b>	Romania's official currency
<b>MECRMA</b>	Ministry of Economy Commerce and Business Environment

<b>MO</b>	Romania's Official Gazette
<b>OG</b>	Governmental ordinance
<b>ONRC</b>	National Office of the Commercial Register
<b>OPCOM</b>	Operator of Romania's Electricity Market OPCOM SA
<b>OTS / TSO</b>	Transmission and system operator
<b>OUG / GEO</b>	Governmental emergency ordinance
<b>pa</b>	Per annum
<b>PCCB</b>	Centralised Bilateral Contracts Market
<b>PCR</b>	Price Coupling of Regions agreed for the future model of the Single European Electricity Market
<b>PE / BM</b>	Balancing market
<b>PCI</b>	Projects of Common Interest
<b>PZU / DAM</b>	Day-Ahead Market
<b>RET</b>	Electricity transmission grid of national strategic interest, of nominal line voltage above 110 kV
<b>SEN</b>	National Power System
<b>Smart</b>	Trading Company for Maintenance Services to the Electricity Transmission Grid SMART SA
<b>SSF</b>	Functional system service
<b>SST</b>	Technological system service
<b>TEL</b>	Stock exchange indicator of Transelectrica
<b>Teletrans</b>	Trading Company for Telecommunication and IT Services in Electricity Transmission Grids TELETRANS SA
<b>TSR</b>	Total shareholders' return
<b>UE / EU</b>	European Union
<b>u.m. / m.u.</b>	Measuring unit
<b>USD or US dollars</b>	American dollar, official currency of the United States of America
<b>WACC</b>	Weighted Average Cost of Capital