



**CNTEE TRANSELECTRICA SA**

**SUPERVISORY BOARD**

**REPORT**

**July – December 2016**

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## **Review of the stand-alone and consolidated financial statements by the Supervisory Board**

As per scope of the report, the Directorate supplied detailed information about the stand-alone financial statements of the second half-year of and of the entire 2016. The Supervisory Board assessed the significant transactions for Transelectrica during board meetings, using the reports submitted by the Directorate.

The Audit Committee assisted the Supervisory Board to carry out the supervision responsibilities for financial and managerial reporting, internal control, audit process and the organisational monitoring of the compliance with the laws, regulations and code of conduct.

The stand-alone financial statements from the first half-year 2016, executed in accordance with IFRS standards, were verified and reviewed by the Audit Committee of the Supervisory Board at the 22 March 2017 meeting.

*With highest consideration,*

Dragos-Corneliu Zachia-Zlatea  
Supervisory Board Chairman





## Corporative structure

### 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 (7 members).

On 31 December 2016 the Transelectrica's Supervisory Board membership ("SB" or the "Board") was as follows:

- **Dragos-Corneliu ZACHIA-ZLATEA – Supervisory Board Chairman** has over 34 years' professional experience.

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 – Hydropower 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 – Supervisory Board Member** has over 33 years' professional experience. His professional experience includes positions of Complex Projects Director 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, as well as researcher with 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).

- **Radu Bugica – Supervisory Board Member** has over 27 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 mediated 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).

- **Daniel-Cristian Pirvulescu - Supervisory Board Member**, has over ten years' experience in the energy domain, currently in 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.

- **Costin Mihalache – Supervisory Board Member** has over 26 years' professional experience.

Mr Costin MIHALACHE has sound professional experience in public administration, superior management at national and multi-national level, and 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 network.

Mr Costin Mihalache speaks fluently English, German and Chinese. He has attended primary courses of the CAESAR School from Köln, FR Germany (1974 – 1978), then graduated High School 34 of Bucharest, with courses taught in German (1978 – 1986).

He is a law school graduate (1990 - 1994) and also attended Chinese language and literature courses in the University of Beijing (1995 - 1999).

**Dorin-Alexandru Badea – Supervisory Board Member** 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 Corporate Governance.

Supervisory Board members are elected by the Shareholders' General Assembly, legally constituted according to legal requirements of 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.

Information about the transactions of initiated persons can be consulted at:

[www.transelectrica.ro/tranzactii](http://www.transelectrica.ro/tranzactii)

Three consultative committees are active in the Supervisory Board on the date of this report.

They are: nomination and remuneration, audit and energy security committees.

## **CONSULTATIVE COMMITTEES OF THE SUPERVISORY BOARD**

On 31 December 2016 the Supervisory Board's consultative committees had the following attributions and membership structure:

### **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 overall activity of the internal audit.

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

The Audit committee plays an important role 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 Supervisory Board to carry out its supervision responsibilities on the design and update of the company's general development strategy; it assists the Supervisory Board in detecting the major development lines in the field 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 designs the remuneration policy and submits it to the Shareholders' General Assembly for approval.

The Nomination and Remuneration Committee provides the amount of the fixed and variable remuneration for Directorate and Supervisory Board members, while observing the proportionality principle with responsibility and with the time allocated by them to their tasks.

### **Energy Security Committee**

Dragos-Corneliu Zachia-Zlatea, Daniel-Cristian Pirvulescu and Ovidiu-Petrisor Artopouloscu 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 RET and energy security and protection of the critical infrastructure.

Another attribution consists in getting involved, under Supervisory Board mandate, next to the Directorate, in the dialogue with public authorities having attributions and competencies in the energy security domain (Department of Energy, specific Parliamentary Commissions).

The committee advise the Directorate to update the Management Plan and to assist the Company when

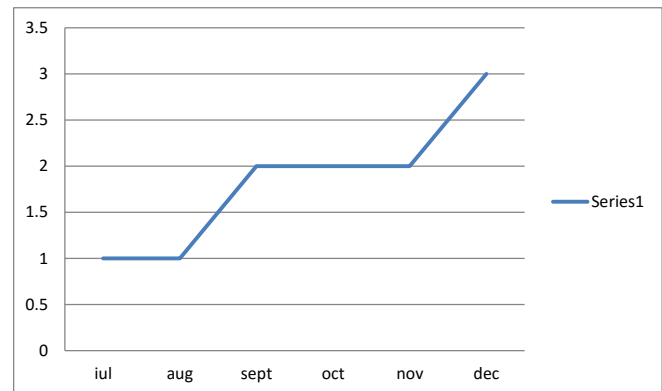
negotiating with the National Regulatory Authority in Energy ("ANRE") the tariff applicable to Transelectrica activities and the approval of the Company's 10 years' development plan and Investment programme of 2016-2018.



## Supervisory Board's activities

### SCHEDULE OF MEETINGS

The schedule of Supervisory Board meetings held from 01.07.2016 to 31.12.2016 is provided in this graph:



### ACTIVITY OF THE SUPERVISORY BOARD

In the second half-year of 2016 Supervisory Board members gathered at 11 meetings, of which we further provide a selection of agenda items.

The following subjects were debated as priorities:

- Debates and actions meant to speed up the CAPEX program;
  - Monitoring the implementation of the “increasing organisational efficiency” project, including the action plan for further developments;
  - Monitoring RET maintenance and, especially, watching the signature progress of the service contract with subsidiary SMART SA. Negotiations to conclude a new contract for maintenance services to electric lines failed because of the tariffs charged by SMART SA for the tasks included in Transelectrica’s terms of reference, therefore the valid Service contract was extended for 6 more months;
  - Investigating the causes leading to incidents to electric lines and requesting a plan of measures to avoid such more occurrences in the future;
  - Finding solutions to prevent and fight risk in terms of cyber security and to avoid possible threats to the safety of the SEN.
- 
- At the **22.07.2016** meeting – approving the model of mandate contract to be concluded with Mr Luca-Nicolae Iacobici, and mandating Mr Dragos-Corneliu Zachia-Zlatea to sign Mr Luca- Nicolae Iacobici’s mandate contract. At the same meeting-approving the establishment of Transelectrica’s secondary office – the 220/33 kV substation Otelarie Hunedoara working point. At the same time endorsing the Organisational and functional structure (organisation chart) of the National Power Grid Company Transelectrica SA applicable as of the date to be set by the Directorate of CN Transelectrica SA. At the same meeting-approving the conclusion of addendum to the credit contract for issuance of bank indemnity deed with BRD Groupe Societe Generale SA to increase a bank indemnity deed for payment.
  - At the **16.08.2016** meeting- endorsing the Organisational and functional structure (organisation chart) of the National Power Grid Company Transelectrica SA with some remarks.
  - At the **05.09.2016** meeting- taking notice of the achieved Investment plan of CNTEE Transelectrica SA in the first 7 months of 2016 and of the information about the Revenue and expense budget execution in January - July 2016, asking the Directorate to submit a monthly reporting calendar for the main economic-financial indicators of the Company.  
Approving the conclusion of an addendum to the mandate contract of Mr Luca Nicolae Iacobici and mandating the Supervisory Board Chairman to



sign the addendum to Mr Luca Nicolae Iacobici's mandate contract.

At the same meeting- approving the qualification and assessment criteria in order to select a Directorate member, approving the form of the announcement with the minimum conditions to be complied with by candidates to the vacancy and asking the Directorate to take the necessary steps to initiate the selection procedure.

At the same meeting- Supervisory Board members acknowledge the initiated procedure to grant the 2nd subsequent contract under the Framework agreement C14/2016 on „Procurement of medium and high voltage primary equipment” by resuming competition among promissory suppliers.

- At the **19.09.2016** meeting the Supervisory Board approved extending Mr Luca-Nicolae Iacobici's mandate contract for two more months, but no more than the necessary interval to designate the new Directorate member according to the provisions of GEO 109/2011.
- At the **03.10.2016** meeting the Supervisory Board approved the initial report sent under the selection procedure to fill the Directorate vacancy, requesting the Directorate to take the necessary steps to publish the announcement and asking the Nomination and Remuneration Committee to re-assess the algorithm and share of the criteria used in assessing the candidates for the vacant position.

At the same time takes notice of the information about the situation of trade receivables from the invoices issued by the Commercial Division and not collected on due dates, asking the Directorate to take the necessary steps according to the proposals to recover receivables and requiring identification, analysis, quantification and application of measures to mitigate future risks that can occur and impact the Company's activities and financial stability.

- Approving initiation of the procurement pertaining to capital repairs for the 400 kV OHL Bucharest Sud – Pelicanu
- Approving initiation of the procurement pertaining to Strategic work services in the installations managed by CNTEE Transelectrica SA”
- Taking into account the need to complete the procurement by 31.12.2016, expiry date of the addendum to the contract concluded with SMART SA, asking the Directorate of CNTEE Transelectrica SA to swiftly inform the Supervisory Board about the procurement stage as well as about the corrective measures required.

- Taking notice about concluding the work contract Refurbishment of the 400 kV substation Isaccea, stage I – Replacing the shunt reactors, associated bays and the 400 kV bay Stupina”
- Taking notice about the work contract to be concluded in order to Refurbish the 220/110 kV substation Turnu Severin Est”
- Taking notice of the information with respect to the incident occurred on 01.06.2016, 15:58 h in Valcea – Arges area
- Taking notice about the progress stage of the annual Investment programme of CNTEE Transelectrica SA in the first 8 months of 2016
- Taking notice of the information about the dispute between CNTEE Transelectrica and the National Agency of Fiscal Administration
- Approving the final form of the Supervisory Board report with respect to management activities in January – June 2016, which will be introduced in the agenda of the following shareholders' general assembly.
- Taking notice of the information about the agenda of the following reunion of the shareholders' general assembly.
- Taking notice of the revenue and expense budget execution in January-August 2016, of the estimated revenue and expense budget execution beginning with 01 July 2016, reviewing the gross profit of August 2016 in comparison with July 2016
- Designating Mr Dorin-Alexandru Badea as member in the Nomination and Remuneration Committee of the Supervisory Board
- Designating Mr Dorin-Alexandru Badea as member in the Audit Committee of the Supervisory Board
- Designating Mr Manuel Costescu as member in the Energy Security Committee of the Supervisory Board
- At the **17.10.2016** meeting the Supervisory Board endorsed the Reorganisation plan and the Organisational chart of the National Power Grid Company Transelectrica SA to be applied beginning with the date that will be established under decision of the Directorate of CNTEE Transelectrica SA
- At the **10.11.2016** meeting- approving the initiation of the contracting procedure for a new revolving bank credit line in view of administrating the support scheme for high efficiency cogeneration and of constituting securities associated to the credit contract

At the same meeting:

- Approving the conclusion of a credit contract with BRD – Groupe Societe Generale SA to issue bank indemnity letter valid in 01.01.2017 – 25.07.2017.
- Taking notice of the information about the work contract to be concluded with respect to Modernising the 220/110/20 kV substation Arefu”
- Taking notice of the information about the achieved annual Investment plan in the first 9 months of 2016
- Taking notice of the information about the stage of the open bid procedure pertaining to Strategic services/work to the installations managed by CNTEE Transelectrica SA., and the Company Directorate will take the corrective measures required in order to provide continuity in the provision of services / work necessary for the safe operation of installations managed by CNTEE Transelectrica SA.
- At the **14.11.2016** meeting the Supervisory Board took notice of the Activity report submitted by the IT & Communication Division and requested supplementing it with additional information.
- At the same time, at the same meeting:
  - Appointing Mr Mircea-Toma Modran as member in the Company Directorate; the mandate is granted until 16.09.2017;
  - The Supervisory Board ascertained the end of Mr Luca-Nicolae Iacobici’s mandate contract, with last mandate day on 23.11.2016
- At the **14.12.2016** meeting the Supervisory Board took notice of Mr Manuel Costescu’s resignation from the capacity of Supervisory Board member in the National Power Grid Company Transelectrica SA beginning with 13.12.2016, when the mandate contract also ends.
- At the **19.12.2016** meeting the Supervisory Board took notice of the information about the Revenue and expense budget execution in January – October 2016 and of the analysis of gross profit achieved in October 2016 in comparison with September 2016.
  - Approving conclusion of a credit contract with BRD – Groupe Societe Generale SA to issue a bank indemnity deed
  - Approving conclusion of a credit contract with EximBank SA to set a ceiling to issue bank indemnity deed for 1 year
  - Approving the mandate contract to be concluded with Mr Mircea-Toma Modran, the SB chairman being mandated to sign his mandate contract
  - Taking notice of the Directorate’s activity report for 01 January – 30 September 2016
- At the **22.12.2016** meeting the Supervisory Board approved the public internal audit plan for 2017 with additions in accordance with the Audit Committee’s requirements of 22.12.2016



## Consultative Committees' activities

### Activity of the Nomination and Remuneration Committee

Members of the Nomination and Remuneration Committee met in this period to debate, discuss and make recommendations with respect to:

- Meeting the independent expert that assists the Supervisory Board to select a Directorate member and establish the stages and way of selection;
- Interviewing the candidates proposed by the consultant to become member in the Directorate of CNTEE Transelectrica SA according to GEO 109/2011 on the corporative governance of public enterprises;
- Recommending a candidate to fill the vacant position of Directorate member.

### Audit Committee activity

Audit committee members performed the following activities:

- Discussions about the reporting obligations of CNTEE Transelectrica SA in accordance with the new Governance code of the BSE
- Supervising of:
  - Submitted intermediate financial statements for the first half-year 2016;
  - Company financial statements executed on 30.06.2016;
  - The report executed on 30.06.2016 in accordance with the capital market requirements;
  - The activity report of Q2, prepared by the Directorate according to the provisions of GEO 109/2011 with later amendments and additions;
  - Submitting the half-yearly financial results according as per financial schedule;

- Steps taken to update the Organisation and operation regulation of the SB;
- Verification of:
  - Stand-alone financial statements of 30.09.2016;
  - Directorate's activity report for the first 3 quarters of 2016;
  - Quarterly report about the economic-financial activity executed according to the requirements of article 227 of Law 297/ 2004 on the capital market and of Regulation 1/2006 of CNVM issued by the National Securities Commission, currently the Financial Supervision Authority (ASF);
- Analysing the plan of public internal audit missions for 2017;
- Meetings with representatives of structures having control attributions in the Company to improve their activity ;

### Activity of the Energy Security Committee

Members of the Energy security committee met during this period to debate, discuss and make recommendations with respect to:

- Identifying the most important 10 risks that can impact Company activities;
- Analysis of projects progress meant to protect the critical infrastructure;
- Examining the progress of IT&C projects;
- Reviewing the refurbishment process of Company substations;
- Reviewing the maintenance works to Company transmission lines.



## Mandate contract execution: 2016 financial data

The summary of 2016 financial results is provided in the tables below. Their extended versions of the same period is shown in the Annexes to this Report.

### Stand-alone profit and loss account

[mill Lei]	H2 2016	H2 2015
Billed volume of energy (TWh)	27.05	26.20
<b>PROFIT ALLOWED ACTIVITIES</b>		
Operational revenues	612	657
Operational expenses	365	357
<b>EBITDA</b>	<b>246</b>	<b>300</b>
Depreciation	160	158
<b>EBIT</b>	<b>85</b>	<b>142</b>
<b>ZERO-PROFIT ACTIVITIES</b>		
Operational revenues	762	901
Operational expenses	675	845
<b>EBIT</b>	<b>86</b>	<b>56</b>
<b>ALL ACTIVITIES (PROFIT ALLOWED AND ZERO-PROFIT)</b>		
Operational revenues	1,373	1,558
Operational expenses	1,041	1,202
<b>EBITDA</b>	<b>332</b>	<b>357</b>
Depreciation	160	158
<b>EBITDA</b>	<b>172</b>	<b>199</b>
Financial result	(11)	(17)
<b>EBIT</b>	<b>160</b>	<b>181</b>
Income tax	(29)	(32)
<b>Net profit</b>	<b>131</b>	<b>150</b>

### Stand-alone financial position statement

[mill Lei]	31.12.2016	31 12.2015
<b>Non-current assets</b>		
Property, plant & equipment	3,190	3,341
Intangible assets	14	35
Financial assets	78	56
Non-current receivables	10	-
<b>Current assets</b>		
Inventories	30	34
Trade & other receivables	852	723
Other financial assets	135	70
Cash and cash equivalents	934	974
<b>Total Assets</b>	<b>5,243</b>	<b>5,234</b>
<b>Shareholders' equity</b>		
Subscribed share capital	733	733
Share premium	50	50
Legal reserves	116	99
Revaluation reserves	549	604
Other reserves	57	56
Retained earnings	1,603	1,488
<b>Non-current liabilities</b>		
Borrowings	502	635
Other liabilities	503	532
<b>Current liabilities</b>		
Borrowings	138	167
Commercial liabilities	874	776
Other liabilities	118	95
<b>Liabilities</b>	<b>2,135</b>	<b>2,205</b>
<b>Equities and liabilities</b>	<b>5,243</b>	<b>5,234</b>

## OPERATIONAL RESULTS

### Billed volume of energy

In second half-year 2016 the electricity quantity billed for services provided on the electricity market registered 3.2% increase compared to the second half-year of 2015 (+0.85 TWh difference between the two periods).

### Operational revenues

Revenues achieved in July - December 2016 registered 11.91% decrease compared to the same period of last year (1,373 mill Lei from 1,558 mill Lei in H2 2015).

In functional terms the **profit allowed activities** registered **6.97%** revenue decrease (612 mill Lei from 657 mill Lei in H2 2015), caused by diminished average tariffs for transmission services starting from 01 July 2016, when electricity consumption grew by 3.2%.

Revenues from allocation of interconnection capacities registered a **17.54%** decrease compared to the achieved value of half-year II 2015 (43 mill Lei in H2 2016 from 52 mill Lei in H2 2015).

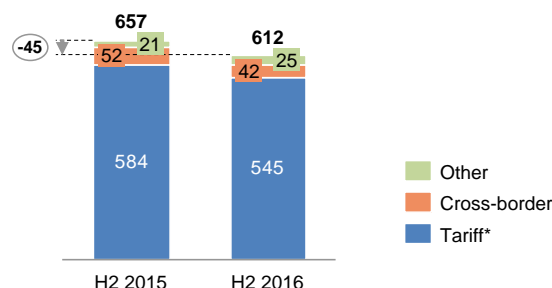
Beginning with 2016 the UIOSI principle was implemented on the borders with Hungary and Bulgaria, according to which the participants that do not use the capacity they gained at annual and monthly bids are remunerated for the unused capacity by means of market mechanisms.

The market allocating the interconnection capacity is fluctuating, and prices evolve depending on demand and on the participants' need to procure interconnection capacity.

In half-year II 2016, the prices on the Serbian, Hungarian and Bulgarian borders were lower during bid sessions compared with half-year II 2015, which determined 9.07 mill Lei smaller revenues from the allocation of interconnection capacities.

The net revenues from allocations of interconnection capacities are used in accordance with the provisions of article 22 par (4) from ANRE Order 53/2013 and of article 16 par (6) from Regulation (EC) 714/2009, as financing source for investments made in order to modernise and develop the interconnection capacities with neighbouring systems.

Operational revenues from profit allowed activities  
(mill Lei)



\* it includes the revenues from the transmission tariff and from the tariff associated to functional system services

Total revenues from **zero-profit activities** registered 15.51% decrease (762 mill Lei from 901 mill Lei in H2 2015) determined by 21.62% decreased revenues on the balancing market, imbalances being smaller in half-year II 2016, determined by adverse meteorological conditions.

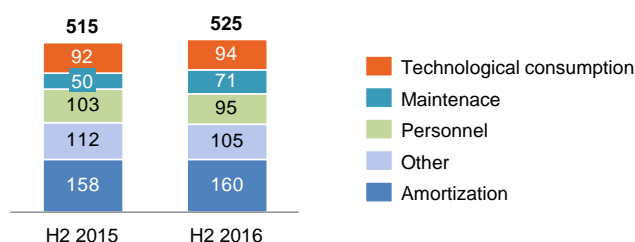
Revenues from technological system services registered 4.94% decrease (about 16 mill Lei). The 86 mill Lei profit was obtained due to favourable market conditions and a good management of procurements for required power reserves by bids from electricity generators, substantiated in smaller unit prices obtained under such bids compared to the forecasted unit prices that were used in the calculation of tariffs for technological system services.

### Operational expenses

Total operational expenses (including amortisement) achieved in July – December 2016 decreased 11.67% compared to the same period of last year (1,202 mill Lei from 1,360 mill Lei).

In the **profit allowed activities** segment expenses (without amortisement) registered **2.2%** increase (365 mill Lei from 357 mill Lei).

Operational expenses from profit allowed activities  
(mill Lei)





**CPT:** The total cost of procurement for electricity necessary to cover one's own technological consumption increased 1.25% in July - December 2016 compared to the same period of 2015.

The power necessary for CPT was higher in H2 recording around 505 GWh compared to 498 GWh in H2 2015.

As regards procurement prices in H2 2016, the average unit procurement price was 0.75% lower than the same period of 2015, namely 184.00 Lei/MWh in 2016 compared to 185.40 Lei/MWh.

**Congestions:** Congestions (network restrictions) mean electricity transmission demands beyond the technical capacity limits of the grid, corrections being required on behalf of the transmission and system operator, and they occur in case the power flow between two system nodes or zones leads to exceeding the safety parameters of a power system, upon operational scheduling or in real time operation.

The **zero-profit activities** segment registered about 20.11% expense decrease (675 mill Lei from 845 mill Lei in H2 2015).

In half-year II 2016, expenses regarding technological system services decreased 16.79% compared to the same period of 2015, mainly determined by:

- Diminished share of procurements for technological system services under regulated regime in the total procurements of technological system services;
- Procurement prices of technological system services on the competitive market were lower in comparison with regulated procurement prices;
- Given the higher competitiveness on the market of technological system services, average

procurement prices for the secondary reserve (RS) and the slow tertiary reserve (RTL) were smaller.

CNTEE Transelectrica SA is re-invoicing the value of technological system services procured from producers to the electricity suppliers licensed by ANRE, which benefit in the end of these services.

## Operational profit

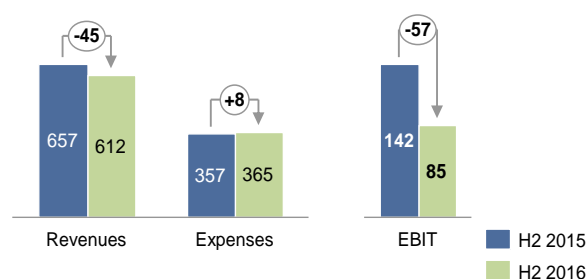
**EBITDA** registered 7.0% decrease compared to the same period of 2015 (332 mill Lei in H2 2016 from 357 mill Lei in H2 2015), such development being mainly caused by diminished average tariffs for transmission services.

**Profit allowed activities** registered positive result (EBIT) but 40.14% smaller than that achieved in H2 2015 (85 mill Lei compared to 142 mill Lei in the previous year) against the background of significant revenue decrease.

**EBIT** generated by **zero-profit activities** registered positive result of 86 mill Lei, higher in comparison with the result recorded in the second half-year of 2015 (56 mill Lei).

**EBIT** for all activities recorded **13.56%** drop (172 mill Lei from 199 mill Lei in H2 2015).

EBIT structure of profit allowed activities  
(mill Lei)

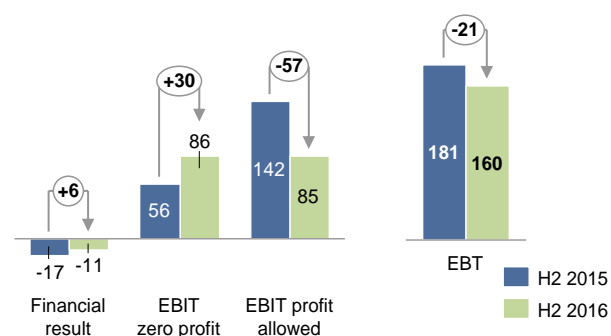


## Gross profit (EBT)

Gross profit registered 11.6% decrease (160 mill Lei from 181 mill Lei in H2 2015).

The difference between the profit registered in H2 2016 and that of H2 2015, broken down by the constitutive elements of profit is provided in the graph below.

EBT structure  
(mill Lei)



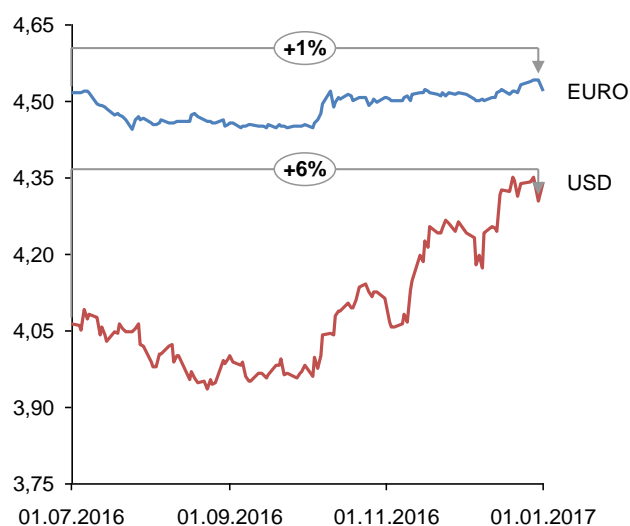
## Financial result

The net financial result registered in the second half-year of 2016 was negative (11 mill Lei), but higher than the net negative result of 17 mill Lei registered in half-year II 2015.

In the second half-year of 2016 interest revenues decreased 30.77% compared to half-year II 2015, mainly because of lower interest payouts associated to the monetary availabilities from bank accounts / deposits.

The development of net exchange rate differences was mainly determined by the development of the national currency's exchange rate against the foreign currencies which Transelectrica has contracted bank loans in, to finance its investment programmes (prevailing in Euro). Thus the net loss registered in H2 2016 was -1.7 mill Lei.

Development of the foreign exchange rate



## Net profit

Net profit registered about **12.6%** decrease compared to that recorded in H2 2015 (131 mill Lei from 150 mill Lei).

## FINANCIAL POSITION

### Non-current assets

They registered about 4.1% decrease at the end of 2016, mainly following registration of the property, plant and equipment and of intangible assets.

### Current assets

They registered 8.3% increase in 2016 (1,951 mill Lei) in comparison with the value recorded on 31 December 2016 (1,802 mill Lei), determined by

17.8% increase of trade receivables, while the cash position decreased 4.1%.

On 31 December 2016 clients on balance registered increase mainly determined by:

- Higher quantity of transmitted electricity;
- Higher volume of transactions on the balancing market in December 2016 compared to December 2015, determining increase of trade receivables on balance on 31 December 2016 compared to 31 December 2015;
- On 3 January 2017 were collected the trade receivables due on 30 December 2016 from the balancing market.

On 31 December 2016 the Company registered trade receivables of 123.6 mill Lei from the bonus type support scheme to promote high efficiency cogeneration, representing about 21% (31 December 2015: 25%) of the total commercial receivables.

From 01 January to 31 December 2016 the amounts associated to the bonus type support scheme diminished as follows:

- The amount of 11.8 mill Lei representing 2014 overcompensation, of which 5.1 mill Lei proceeds from bank transactions (Electrocentrale Oradea – 4.9 mill Lei and Termo Calor – 0.2 mill Lei) as well as proceeds made by means of the Institute of Management and IT (according to GD 685/1999) amounting to 6.8 mill Lei (Electrocentrale Oradea);
- The amount of 96.6 mill Lei representing 2015 overcompensation, of which 12.4 mill Lei proceeds from bank transactions (CET Grivita, Veolia Prahova, Veolia Iasi and Thermoenergy) as well as proceeds made by means of the Institute of Management and IT (according to GD 685/1999) amounting to 84.3 mill Lei (Energy Complex Oltenia, Electrocentrale Bucharest and Enet);
- The amount of 2.7 mill Lei representing the 2015 undue bonus, of which 0.3 mill Lei proceeds from bank transactions (Electrocentrale Bucharest) as well as proceeds made by means of the Institute of Management and IT (according to GD 685/1999) amounting to 2.4 mill Lei (CET Arad).

On 31 December 2016 the Company registered 123.6 mill Lei trade receivables, represented by invoices issued under the bonus type support scheme to promote high efficiency cogeneration, of which:

- 2011-2013 overcompensation of 76.7 mill Lei, namely from RAAN – 63.5 mill Lei and CET Govora SA – 13.2 mill Lei;

- 2014 overcompensation of 1.4 mill Lei from Electrocentrale Oradea;
- Undue 2014 bonus amounting to 3.9 mill Lei, namely from RAAN – 2.0 mill Lei, CET Govora – 1.9 mill Lei;
- 2015 undue bonus amounting to 0.6 mill Lei from CET Govora and Interagro;
- 2015 overcompensation of 13.2 mill Lei from Electrocentrale Oradea;
- Cogeneration contribution of 27.8 mill Lei not collected from the suppliers of electricity consumers, namely: Transenergo Com – 4.7 mill Lei, Enel Energie – 4.7 mill Lei, Enel Energie Muntenia – 4.6 mill 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.

The Company requested the producers to carry out mutual compensations in order to extinguish receivables generated by the 2011-2013 overcompensation. RAAN did not agree with this manner to extinguish mutual receivables and liabilities, therefore the Company has applied and still 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 clear 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.

## Liabilities

**Non-current liabilities** registered 13.9% decrease in 2016, following repayment of principal instalments (from 635 mill Lei on 31 December 2015 to 502 mill Lei on 31 December 2016) from contracted borrowings.

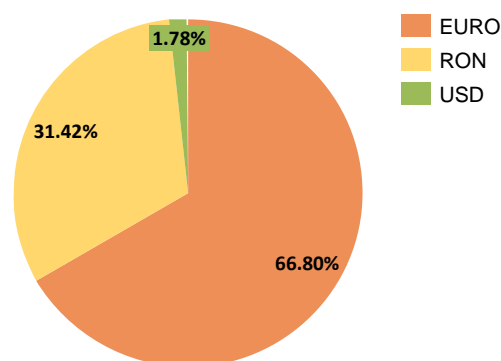
**Current liabilities** registered about 8.9% increase on 31 December 2016. Such growth was mainly determined by:

- Higher liabilities to suppliers on the balancing market, determined by increased volume of transactions on this market in December 2016 compared to December 2015, determining liabilities increase to the suppliers on this market, on balance on 31 December 2016 compared to 31 December 2015;
- Higher liabilities associated to the support scheme to suppliers (producers) was determined by the cogeneration bonus withheld from payment as well as the ex-ante overcompensation owed to producers, in the account of trade receivables that the Company from the same producers under the support scheme, represented by the 2011-2013 overcompensation, for which the Company has applied the provisions of article 17 par 5 from Order 116/2013 of ANRE president.
- Decreased liabilities to suppliers from operational activities - energy was determined by:
  - diminished procurement price of the electricity necessary to cover one's own technological consumption (CPT);
  - Paying the payment obligations on balance on the electricity market on 31 December 2015.

On 31 December 2016 tax increase of 13.65 mill Lei was registered in comparison with 31 December 2015, mainly determined by the- registration of payment obligations to social protection funds, salary tax, income tax and other taxes outstanding beyond 31 December 2016, as well as higher provisions constituted for the annual variable component owed to Directorate and Supervisory Board members.

Interest bearing liabilities (long and short term) are shown below.

Structure by currency on 31.12.2016



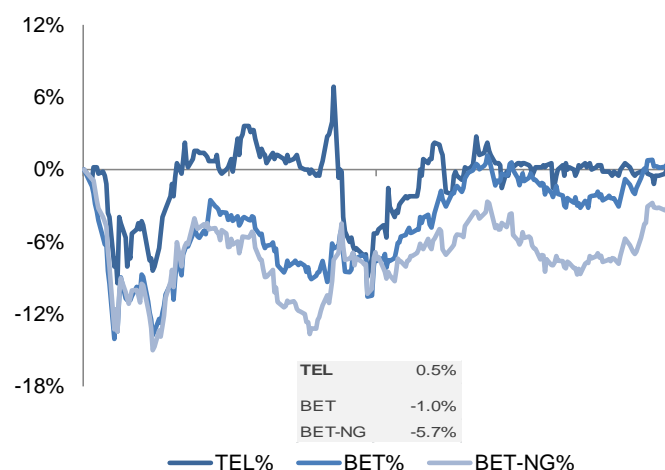
## Shareholders' equities

Equities increased 2.6% determined by the 17.2% growth of legal reserve the 7.7% increase of retained earnings since 78 mill Lei from the profit achieved in 2016 financial year was distributed to 'Other reserves' as follows:

- 50.6 mill Lei represent the distribution of net revenues from the allocation of interconnection capacities in 2016 in accordance with Regulation (EC) 714/2009 and ANRE Order 53/2013;
- 27.4 mill Lei represent the distribution to reserves of the profit amount which was tax exempted, less the part associated to the legal reserve in accordance with the provisions of article 22 from Law 227/2015 with respect to the Fiscal code.

## SHARE DEVELOPMENT

(01-Jan-2016 to 30-Dec-2016)



2016 begin with 29.15 Lei/share transaction price, stock exchange capitalisation being 2,137 mill Lei, and the end of the interval (31 December 2016) recorded the share price at 29.20 lei.

The minimum transaction price of 26.4 Lei/share was registered on 20.01.2016, and the maximum 31.15 Lei/share - on 03.06.2016.

## **DIVIDENDS**

2015 dividends begin being paid on 28 June 2016. Dividend was calculated observing the provisions of the legislation applicable to profit distribution in companies with majority state capital, according to 75% distribution rate and the dividend policy of CNTEE Transelectrica SA.

Total dividend distributed:	194 mill Lei
Dividend per share:	2.6500 Lei
Ex-dividend date:	6 June 2016
Payment date:	28 June 2016





## Mandate contract execution: Operational data

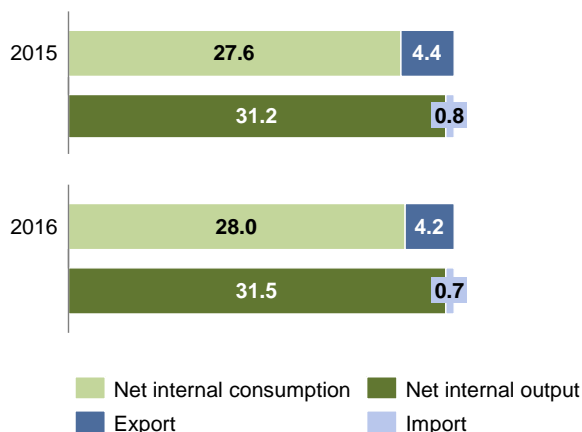
### ENERGY BALANCE IN THE SEN

The net internal consumption<sup>1</sup> increased 1.7% compared to the same period of last year.

The net power output registered slight 0.8% increase compared to the same period of 2015, and the higher domestic consumption being counter-balanced by the significant decrease of exported amounts.

Exporting cross-border physical exchanges decreased 6.0% compared to the same period of 2015, and importing cross-border flows also registered about 6.9% decrease in comparison with the first half of 2015.

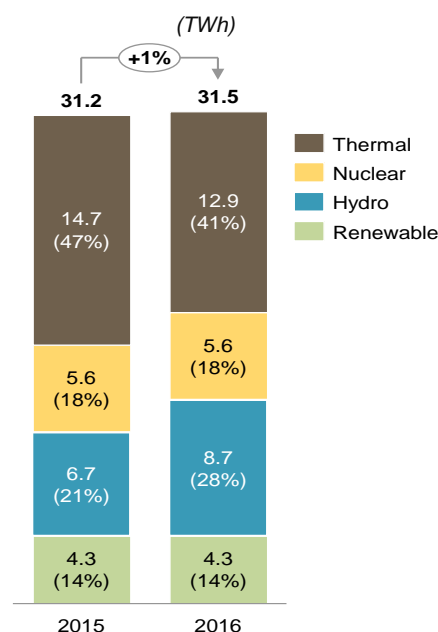
Energy balance, H2  
(TWh)



components, which decreased 12.9% (18.43 TWh against 20.28 TWh).

About 1.17% slight increase (4.34 TWh against 4.29 TWh) was registered in the renewable sources area.

Mix of net electricity output H2



### NATIONAL GENERATION FLEET

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

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

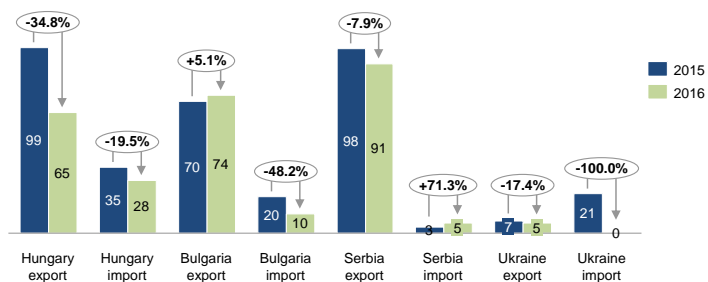
The following is presented as the installed power capacity installed at the end of each of the two semesters.

### GENERATION MIX

The generation mix structure in half-year II 2016 compared to half-year II 2015 registered about 30.9% increase of the hydro component (8.70 TWh against 6.65 TWh) to the detriment of thermal and nuclear

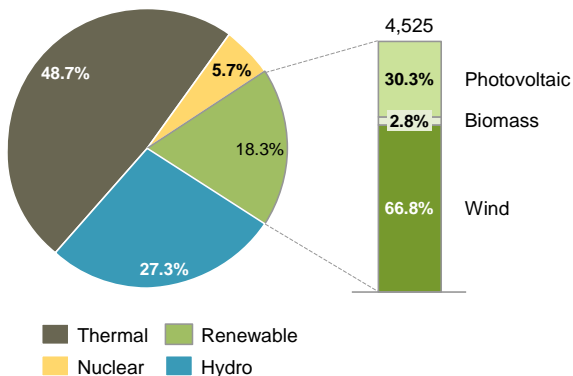
<sup>1</sup> Values do not include the consumption of auxiliary services from electricity generating power plants; the value of the net consumption includes the losses from transmission networks and the consumption of pumps from pumping storage hydropower substations

Utilisation degree of the total allocated capacity, H2 (%)

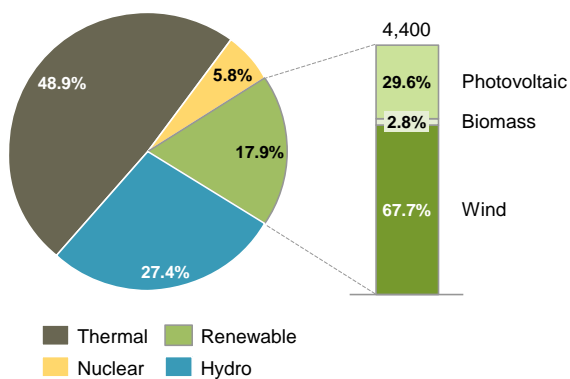


Physical flows, both importer and exporter ones on each border are provided below.

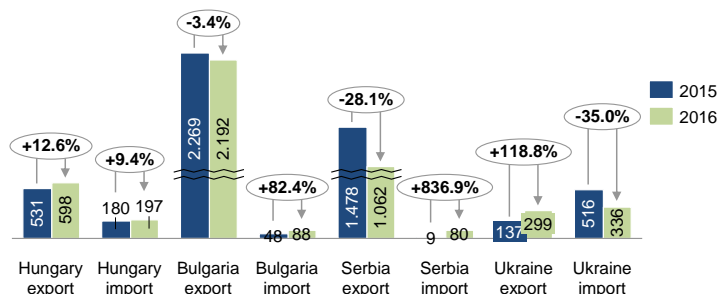
Installed capacity in 2016 (24,689 MW, gross value)



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



Physical flows (GWh)



CROSS-BORDER FLOWS

Cross-border flows registered increasing values on the borders with Hungary and Ukraine and decreasing ones on the borders with Bulgaria and Serbia, but per total diminished in comparison with the same period of last year.

Thus in comparison with H2 2015, physical export flows with Bulgaria (-3.4%, -76.77 GWh), Serbia (-28.1%, -415.4 GWh) decreased, while a higher amount of electricity was exported to Hungary and Ukraine (+12.6%, +66.8 GWh, namely +118.8%, +162.5 GWh).

As regards importing physical flows they increased on the interconnection lines with Serbia (+836.7%, +71.6 GWh), Bulgaria (+82.4%, +39.7 GWh) and Hungary (+9.4%, +17.0 GWh).

In conclusion the utilisation degree of the total capacity allocated to interconnection lines for export decreased in comparison with the same period of 2015, significant reductions being registered with Serbia and Bulgaria.

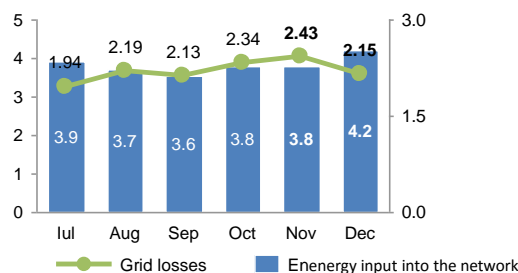
In relation with the Republic of Moldova no import/export operations were registered in the last six months of 2016 and 2015.

TECHNOLOGICAL CONSUMPTION

In half-year II of 2016 CPT of the RET decreased about 7.19 % in comparison with the same period of 2015, due to better physical flows and generation structure. Losses decreased from 2.72% to 2.48% compared to the energy input in the outline.

In 2016 the quantity necessary to cover the CPT in the RET (1,012 TWh) decreased about 1.69% compared to the same period of 2015 (1,030 TWh), being a combination of better meteorological conditions, import/export physical flows and the generation structure.

Development of CPT (%)



### **Monthly minimum/maximum value in half-year II 2016**

In **July** the CPT expressed in absolute value decreased about 1.04% in comparison with July 2015 due to better distribution of import/export physical flows. The loss percentage compared to the power input in the RET decreased from 2.02% in 2015 to 1.94% in 2016.

Although the net domestic energy consumption was 4% lower in comparison with July 2015, the energy input in the outline increased 2.68% in July 2016 compared to the same period of 2015 because the export balance grew more than 50%. Meteorological conditions were worse, providing negative influences by corona losses.

In **December** 2016 the CPT in absolute value increased about 17.05% compared to December 2015

because of greater amounts of transmitted energy, worse generation structure (wind output directly discharged into the RET was about 63% higher in 2016), worse flow distribution on borders (diminished import and higher export on the north-western border of the country) and much worse meteorological conditions, which determined higher corona losses.

The energy input in the outline increased 6.68% in December 2016 compared to the same period of 2015. The percentage of losses compared to the energy input in the RET increased from 1.91% in 2015 to 2.15% in 2016.

Meteorological conditions were much worse, three times greater precipitation amounts being registered than in the previous year, which led to considerable increase of corona losses compared to last year.



## Mandate contract execution: Investments

### NON-CURRENT ASSETS REGISTERED IN ACCOUNTING BOOKS

Non-current assets registered in half-year II of 2016 amounted to 79.3 mill Lei.

The greatest transfers from property, plant & equipment underway to plain property, plant & equipment are represented by commissioning of investment objectives, as follows:

- Increasing the safety degree 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 Iron Gates - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage I - Extending the 400 kV substation Iron Gates, 13 mill Lei;
- Replacing autotransformers and transformers in electric substations, stage 2: the 16 MVA transformer T2 from the 110/20 kV substation Ungheni, the 25 MVA transformer T2 from the 220/110/20 kV substation Gradiste, the 25 MVA transformer T1 in the 110/20 kV substation Gheorgheni, the 200 MVA autotransformer AT2 in the 220/110 kV substation Ungheni, 9.8 mill Lei;
- 2016 motor cars, 7.8 mill Lei;
- Upgrading the control protection system of the 220/110 kV substation Vetis, 6.5 mill Lei;
- Upgrade with a view to diminish galloping effects on the 400 kV OHL from Baragan-Fetesti area; reducing the galloping effects on the 400 kV OHL Cernavoda-Pelicanu, 400 kV OHL Cernavoda-Gura Ialomitei (circuit 2) and to the 400 kV OHL Bucharest Sud-Pelicanu – 4.4 mill Lei;
- Connecting the 60 MW WPP Filipesti and 100 MW WPP Saucesti to the SEN in the 400/110 kV substation Bacau Sud – 4.2 mill Lei;
- Replacing the 110/10 kV, 25 MVA transformers T3 & T4 by 110/(20)10 kV, 40 MVA ones in the 220 kV substation Fundeni – 3.8 mill Lei;
- Connecting the 27 MW WPP from the area of Stalpu, Buzau County to the RET by building two 110 kV bays in the 220/110 kV substation Stalpu – 2.1 mill Lei;
- Upgrading the ac & dc auxiliary services in the 400/110 kV substation Draganesti Olt, 1.9 mill Lei;
- Upgrading one 110 kV OHL bay Portile de Fier - Gura Vaii in the 110 kV substation Portile de Fier and two 6 kV bays – 1.1 mill Lei;
- Consolidating and upgrading the compensator building in Suceava substation – 1 mill Lei;  
Connecting the drainage installation from the 400/110 kV substation Brasov to the city's installation – 0.6 mill Lei;

### ASSET PROCUREMENTS

Procurements of property, plant & equipment and of intangible assets<sup>2</sup> in half-year II of 2016 amount to 104.4 mill Lei, compared to the same period of 2015 when procurements amounted to 189 mill Lei.

Investment projects underway on 31 December 2016 are as follows:

Investment projects underway on 30 June 2016 are as follows:

- Refurbishment of the 400/220/110/20 kV substation Bradu – 78.5 mill Lei;
- The 400 kV interconnection OHL Resita (Romania) - Panchevo (Serbia) – 65 mill Lei;
- Refurbishment of the 220/110/20 kV substation Campia Turzii – 35.5 mill Lei;
- Integrated security system in electric substations, stage IV – 24.2 mill Lei;
- Extending the services providing business continuity and recovery after disasters, 14.8 mill Lei;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage I - the 400 kV simple circuit OHL Portile de Fier - (Anina) – Resita – 12.2 mill Lei;

<sup>2</sup> Includes the turnover of asset suppliers on balance on 31 December 2016

- Connecting the 400 kV OHL Isaccea - Varna and Isaccea - Dobrudja OHL in the 400 kV substation Medgidia Sud – 10.2 mill Lei;
- The 400 kV double circuit OHL Cernavoda-Stalpu and connection in Gura Ialomitei – 8.4 mill Lei;
- Upgrading the 110 kV and 20 kV substations Suceava – 6.9 mill Lei;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage I - the 400/220/110 kV substation Resita – 6.4 mill Lei;
- Replacing autotransformers and transformers in electric substations, stage 2 – 5.9 mill Lei;
- 400 kV HVDC Link (Submarine cable Romania - Turkey) – 5.9 mill Lei;
- The 400 kV OHL Gadalin - Suceava, including its SEN interconnection – 5.6 mill Lei;
- Emergency remedial of failure to the 400 kV OHL Iernut-Gadalin and the 220 kV OHL Iernut-Baia Mare 3, 5.4 mill Lei;
- Remedying the failure to terminals 110-120 of the 220 kV OHL Bucharest Sud – Ghizdaru, 4.3 mill Lei;
- Upgrading the 220/110 kV substation Tihau, primary equipment – 4 mill Lei;
- The 400 kV OHL Suceava - Balti for the project segment on Romania's territory – 3.6 mill Lei;
- Extending with new functions the control and IT access monitoring system in the objectives of CNTEE Transelectrica SA – 3.2 mill Lei;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage II, 400 kV OHL double circuit Resita - Timisoara – Sacalaz – 3.2 mill Lei;
- Integrated security system in electric substations, stage III – 2.8 mill Lei;
- Upgrading the 220/110/20 kV substation Arefu – 2.7 mill Lei;
- Upgrading the 220/110/20 kV substation Raureni – 2.7 mill Lei;
- By-passing the 110 kV OHL Cetate 1 & 2 near the 110/20/6 kV substation Ostrovul Mare, 2.6 mill Lei;
- Installing optical fibre and upgrading the tele-protection system of the 400 kV double circuit OHL Tantareni-Turceni and the 400 kV simple circuit OHL Urechesti-Rovinari – 2.4 mill Lei;
- The 400 kV double circuit OHL Gutinas – Smardan – 2.3 mill Lei
- Upgrade command-control-protection system in the 220/110/20 kV substation Sardanesti, 2.2 mill Lei;
- Security solution to implement the security measures for classified information – 2 mill Lei;
- Consolidation, modernisation and extension of the building of CNTEE Transelectrica – 1.6 mill Lei.

## **CONTRACTUAL ASPECTS**

During the half-year II of 2016 seven contracts were signed for investment projects amounting in total to 130 mill Lei, compared to 77 contracts of total amount of 375 mill Lei concluded in half-year II 2015.

The most important investment contracts signed in July – December 2016 are:

- Refurbishment of the 220/110 kV substation Turnu Severin Est – 42.7 mil. lei;
- Refurbishing the 400 kV substation Isaccea, stage I - Replacing shunt reactors, their bays and the 400 kV bay Stupina – 29.1 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;
- Replacing the components of the EMS SCADA AREVA system – the software - 11 mill Lei;
- Remedying the failure to the 400 kV OHL Iernut - Gadalin and the 220 kV OHL Iernut - Baia Mare 3 – 6 mill Lei.





## Other issues

### PERFORMANCE CRITERIA AND OBJECTIVES

The Supervisory Board's remuneration consists of fixed monthly indemnification and of annual variable component. The latter can be granted as follows:

- For the *cumulative achievement* of performance indicators "Average interruption time", "EBITDA" and "Total investments" assumed in the Administration plan of each mandate year as follows- the annual variable component for these indicators is in quantum of 12 fixed indemnifications and is owed to the MANDATEE only in case the actually achieved level of such performance indicators in the year the determination is made for has reached the values assumed in the Administration plan. The MANDATEE will collect annually the sum thus calculated within 15 days from the AGA's approval date of the audited stand-alone financial statements. By the date of this report such component was not granted because the "Total investment" indicator was not fulfilled.
- A performance bonus depending on the profitability of Transelectrica shares for company shareholders, which every Supervisory Board member has received options of virtual Transelectrica shares for (OAVT).

The Company obligations with respect to the variable component are detailed in the Annual reports of the Nomination and Remuneration Committee about the remunerations of supervisory board and directorate members of Transelectrica.

### MONITORING THE PERFORMANCE CRITERIA AND OBJECTIVES

(Annual) criteria and objectives according to the mandate contract	2016 objective	Achieved in 2016	Achievem degree %
Average interruption time (minutes)	2.8	1.93	100%
EBITDA (mill Lei)	572	675	118%
Investment plan <sup>3</sup> in the RET (mill Lei)	575	172 <sup>3</sup>	30%

Other performance objectives of the Administration Plan	2016 objective	Achieved in 2016	Achievem degree %
Maintenance plan (million Lei)	178	120	67%
Availability of RET	99.98%	99.9981%	100%
Labour productivity (thousand Lei) = EBITDA (mill Lei) / no of employees (jobs taken)/1000	301	309	103%
TSO Certification	Getting certified TSO and maintaining certification criteria	Transelectrica certified OTS	
Optimize the financing mix	17,68%	31,42%	178%
Total shareholder return <sup>4</sup> (TSR = market capital growth + the dividends as per 2016) cumulated to 31.12.2016	40%	9%	118%

<sup>3</sup> This amount does not include the unused down payment of 29.6 mill Lei of the new line segment Portile de Fier – (Anina) – Resita

<sup>4</sup> Includes the Company dividend proposal of 2016 (1,881 RON / share, according HAGOA 1 / 03.28.2016 and dividend distribution policy)

- **Maintenance plan:**

The maintenance plan includes, besides the (major and minor) RET maintenance, the components associated to IT systems maintenance, spare parts and auxiliary materials used for RET maintenance.

In the second half of 2016 were made 71 mil lei out of 120 mil lei maintenance cost, so the objective of management plan has been achieved to 67% in 2016.

The maintenance program was carried out in a high percentage (94%), while the RET maintenance was carried out in a proportion of 64%, an optimal operational fund provided by the proper execution of preventive maintenance.

- **Human resources development policy:**

In 2014 the Company began a project meant to increase organisational efficiency, which has objectives such as- optimising the organisational model; increasing personnel motivation; restructuring activities of branches, and devising a remuneration system with a fixed and a variable component depending on performance.

In 2016 Transelectrica continued implementing this project together with a consultant with a view to review and validate all reports and analyses. The main effort focussed on reviews and reports building the new salary system with the variable part relying on specific sets of Key Performance Indicators („KPIs”). All stages have been completed in the timeframe allocated to the contract and were submitted to the Directorate and Supervisory Board as main architecture.

Based on the consultant’s recommendations the project team coordinated by the Directorate completed devising the new organisational structures. This project was carried out on two tiers, the first one dedicated to the general organisational chart of Transelectrica and the second one meant a more detailed analysis of existing divisions and departments. Thus optimised consolidated organisational charts resulted of the new divisions and departments.

The new structures require clearer assumption of responsibilities, significant efficiency increase (based on process synergy, faster decisional rates and better control of programmes and projects), and optimising job sheets.

The remuneration system that was elaborated and proposed under the project increasing organisational efficiency will be implemented beginning with 01.01.2017

- **MBO implementation and monitoring the budget execution in subsidiaries:**

Periodical reporting (half-yearly, annually) procedures were implemented in subsidiaries for budgetary achievements, thus providing premises for a more efficient control. Measures were also taken to implement GEO 109/2011 in Company subsidiaries.

- **Average interruption time (minutes)**

Average interruption time (AIT) = technical quality indicator, which represents the time equivalent average period expressed in minutes, when electricity supply was interrupted.

- **RET investment plan**

The achieved value means the procurements of property, plant & equipment and of intangible assets in the first half-year of 2016.

The main reasons why investment expenses decreased are as follows:

- Impact of the legislation with respect to expropriation for public utility reasons
- Impact of the legislation in the public procurement domain
- Reduced volume of RET connection for the new generation capacities

- **Labour productivity**

Labour productivity = EBITDA (mill Lei) / number of employees / 1,000

- **Total shareholder return**

In accordance with the Administration Plan providing 40% TSR at mandate end, in 2016 the TSR was 6.6%, namely 169% from the beginning of the mandate (30.09.2013).

- **TSO certification**

The TSO certification was approved under ANRE Order 164/07.12.2015, published in MO 908/08.12.2015. Thus Transelectrica has received final certification of transmission and system operator of the national power system and is operating according to the ownership unbundling model.

The notification about 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.

## TARIFFS

In June the Official Gazette 477/27.06.2016 published ANRE Order 27/2016 approving the average tariff for transmission services, the tariff of system services, zone tariffs of 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 from 1 July 2016 are:

Service	Tariff	Tariff	Difference
	01.07.2015– 30.06.2016	01.06.2016– 30.06.2017	
	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 decrease is mainly owed to the negative corrections the regulator applied to compensate the differences between the forecasted values used when calculating the tariff in previous years and the actual registered values (final corrections for the 1 July 2014 - 30 June 2015 year, preliminary corrections for 1 July 2014 - 30 June 2015 year) according to the applicable methodology.

"Ex-post" corrections contributed 7.2% to tariff decrease. Among the calculation elements included in the "ex-post" corrections applied in the calculation of the newly approved tariff, the most important are:

- (i) The procurement price of electricity to cover one's own technological consumption;
- (ii) The inflation index;
- (iii) Using a part of the revenues obtained by allocations of interconnection capacities as complementary source of the regulated tariff in view of covering regulated costs;
- (iv) Increasing electricity consumption and export above the initially forecasted level by ANRE;

Besides negative corrections there have also been other factors that contributed to tariff decrease, such as:

- The indexed inflation indice in the calculation of the new tariff (inferior to the inflation index used in the tariff calculation of the previous year) contributed -2.8% to tariff decrease;
- The basic revenue calculated as sum of regulated costs (inferior to that calculated for the previous year, given the efficiency requirements imposed in the recognised operational costs) and flattening the revenues during the regulatory period, these two items providing cumulated -0.8% contribution to tariff decrease.

### **Tariff for functional system services**

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

### **Tariff of technological system services**

The 7.9% tariff decrease was mainly determined by:

- The negative correction applied in the newly approved tariff to compensate the profit estimated to be recorded in 1 July 2015 - 30 June 2016 tariff year, determined by the significant reduction of procurement prices for power reserves under bids compared to the positive correction included in the tariff corresponding to 1 July 2015 - 30 June 2016, necessary to recover some historical losses. The corrections contributed -4.8% to tariff decrease;
- The recognised cost base in the newly approved tariff for procurement of power reserves in 1 July 2016 - 30 June 2017 tariff year is lower than the recognised cost base in the previous 1 July 2015 - 30 June 2016 tariff year, reduction occurred against the background of diminished procurement prices of power reserves under bids in the last year. The reduced recognised costs contributed -3.2% to the tariff decrease.



## Annexes

**ANNEX 1: Stand-alone financial position statement on 31 December 2016**

<b>[thousand Lei]</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant & equipment	3,189,592	3,341,451
Intangible assets	14,457	34,570
Financial assets	78,039	55,944
Non-current trade receivables	9,775	
<b>Total non-current assets</b>	<b>3,291,863</b>	<b>3,431,965</b>
<b>Current assets</b>		
Inventories	30,410	34,329
Trade and receivables	851,972	723,448
Other financial assets	135,090	70,085
Cash and cash equivalents	933,661	974,451
<b>Total current assets</b>	<b>1,951,133</b>	<b>1,802,313</b>
<b>Total assets</b>	<b>5,242,995</b>	<b>5,234,278</b>
<b>Shareholders' equities and liabilities</b>		
<b>Equities</b>		
Share capital, of which:	733,031	733,031
<i>Subscribed share capital</i>	733,031	733,031
Share premium	49,843	49,843
Legal reserves	116,360	99,407
Revaluation reserve	549,088	603,685
Other reserves	56,954	55,695
Retained earnings	1,602,438	1,487,645
<b>Total equities</b>	<b>3,107,714</b>	<b>3,029,306</b>
<b>Non-current liabilities</b>		
Long term deferred revenues	429,859	462,721
Borrowings	501,930	634,590
Deferred tax liability	30,195	34,663
Employee benefits obligationis	43,305	34,669
<b>Total non-current liabilities</b>	<b>1,005,289</b>	<b>1,166,644</b>
<b>Current liabilities</b>		
Trade and other liabilities	873,948	776,168
Other tax and social security liabilities	8,611	6,763
Borrowings	138,205	167,362
Provisions	53,802	38,255
Short term deferred revenue	38,125	33,408
Income tax payable	17,301	16,371
<b>Total current liabilities</b>	<b>1,129,992</b>	<b>1,038,328</b>
<b>Total liabilities</b>	<b>2,135,281</b>	<b>2,204,972</b>
<b>Total shareholders' equities and liabilities</b>	<b>5,242,995</b>	<b>5,234,278</b>



**ANNEX 2: Stand-alone profit and loss account for the second half-year 2016**

<b>[thousand Lei]</b>	<b>H2 2016</b>	<b>H2 2015</b>
Operational revenues		
Revenues from transmission services	551,154	605,468
Revenues from system services	349,816	361,530
Revenues from the balancing market	447,467	570,926
Other revenues	24,446	20,514
<b>Total revenues</b>	<b>1,372,882</b>	<b>1,558,439</b>
Operational expenses		
System operation expenses	(110,274)	(110,313)
Expenses regarding the balancing market	(447,467)	(570,926)
Expenses regarding technological system services	(228,054)	(274,069)
Amortisement	(160,549)	(158,277)
Personnel expenses	(127,151)	(102,275)
Repairs and maintenance	(52,866)	(49,719)
Expenses with consumables	(3,938)	(3,917)
Other operational expenses	(71,096)	(90,558)
<b>Total operational expenses</b>	<b>(1,201,395)</b>	<b>(1,360,053)</b>
<b>Operational profit</b>	<b>171,486</b>	<b>198,386</b>
Financial revenues	11,889	18,002
Financial expenses	(23,389)	(35,125)
<b>Net financial result</b>	<b>(11,500)</b>	<b>(17,123)</b>
<b>Profit before income tax</b>	<b>159,986</b>	<b>181,263</b>
Income tax	(29,433)	(31,626)
<b>Profit of the year</b>	<b>130,553</b>	<b>149,637</b>

### ANNEX 3: Stand-alone cash flows statement on 31 December 2016

[thousand Lei]	Period of 6 months ended on 31.12.2016	Period of 6 months ended on 31.12.2015
<b>Cash flows from operational activities</b>		
Profit of the time interval	130,553	149,637
<b>Adjustments for:</b>		
Income tax expense	29,433	31,626
Amortisement expenses	160,549	158,276
Provisions for impairment of trade receivables and other receivables	17,812	18,103
Reversal of provisions for impairment of trade receivables and other receivables	(8,458)	(8,546)
Net profit/loss from disposal of property, plant & equipment	287	317
Reversal of allowances for property, plant & equipment	2,590	19,974
Net reversal of impairments regarding provisions for risks and expenses	30,818	18,721
Financial expenses regarding impairments for assets	493	0
Interest expense, interest revenue and unrealised exchange rate gains	11,075	16,854
<b>Cash flows before changes in the current capital</b>	<b>375,151</b>	<b>404,961</b>
<b>Changes in:</b>		
Trade and receivables	(132,153)	(25,988)
Inventories	2,883	1,100
Trade and other receivables	196,690	132,150
Other tax and social security liabilities	(11,804)	(23,123)
Deferred revenue	(11,667)	(17,777)
<b>Cash flows from operational activities</b>	<b>419,101</b>	<b>471,323</b>
Interest paid	(18,102)	(20,197)
Income tax paid	(27,471)	(18,817)
<b>Net cash from operational activities</b>	<b>373,529</b>	<b>432,309</b>
<b>Cash flows used in investments</b>		
Procurements of property, plant & equipment and of intangible assets	(104,458)	(159,469)
Collection/(payment) unused down payments	0	(29,581)
Proceeds from disposal of property, plant and equipment	23	0
Collected interest	1,712	4,120
Dividends cashed	2,429	6,121
Other financial assets	(135,090)	78,715
<b>Net cash used in investments</b>	<b>(235,383)</b>	<b>(100,094)</b>
<b>Cash flows used in financing</b>		
Repayments of non-current borrowings	(81,231)	(93,883)
Dividends paid	(1,797)	(2,356)
<b>Net cash used in financing</b>	<b>(83,028)</b>	<b>(96,239)</b>
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>55,116</b>	<b>235,977</b>
<b>Cash and cash equivalents on 1 January</b>	<b>974,451</b>	<b>716,438</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>55,116</b>	<b>235,977</b>

#### ANNEX 4: Execution of the Revenue and Expense Budget

INDICATORS	Forecast Achieved in H2 2015	BVC H2 2016	Forecast Achieved in H2 2016	Achievement degree (%)	Achieve. degree (%)
[thousand Lei]	<b>2</b>	<b>3</b>	<b>4</b>	<b>5=4/3*100</b>	<b>6=4/2*100</b>
<b>TOTAL REVENUES</b>	<b>1,576,441</b>	<b>1,437,703</b>	<b>1,384,770</b>	<b>96.3</b>	<b>87.8</b>
Total operational revenues	656,961	663,861	611,194	92.1	93.0
Financial revenues	18,002	17,685	11,889	67.2	66.0
Revenues from zero profit activities	901,478	756,157	761,687	100.7	84.5
<b>TOTAL EXPENSES</b>	<b>1,395,178</b>	<b>1,330,245</b>	<b>1,224,784</b>	<b>92.1</b>	<b>87.8</b>
Operational expenses	515,058	557,372	525,874	94.3	102.1
Expenses with goods and services	207,400	267,964	209,975	78.4	101.2
Tax, charges and assimilated pay expenses	13,210	11,760	11,225	95.5	85.0
Personnel expenses	83,994	94,197	95,428	101.3	113.6
Other operational expenses	210,454	183,451	209,246	114.1	99.4
Financial expenses	35,125	27,333	23,389	85.6	66.6
Expenses from zero profit activities	844,995	745,540	675,521	90.6	79.9
<b>GROSS RESULT (profit)</b>	<b>181,263</b>	<b>107,458</b>	<b>159,986</b>	<b>148.9</b>	<b>88.3</b>

## ANNEX 5: Economic-financial indicators of the reporting period

Indicator	Calculation formula	31.12.2016	31.12.2015
<b>Profitability indicators</b>			
a) EBITDA in total sales	$\frac{\text{EBITDA}}{\text{Turnover}}$	0.56	0.57
b) EBITDA in equities	$\frac{\text{EBITDA}}{\text{Equities}}$	0.22	0.25
c) Gross profit rate	$\frac{\text{Gross profit}}{\text{Turnover}}$	0.28	0.32
d) Rate of return of capit	$\frac{\text{Net profit}}{\text{Equities}}$	0.09	0.12
<b>Liquidity indicators</b>			
a) Current liquidity indicator	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.73	1.74
b) Immediate liquidity indicator	$\frac{\text{Current assets}-\text{Inventories}}{\text{Current liabilities}}$	1.70	1.70
<b>Risk indicators</b>			
a) Leverage indicator	$\frac{\text{Borrowed capital}}{\text{Equities}}$	0.21	0.21
b) Interest coverage indicator	$\frac{\text{EBIT}}{\text{EBIT}}$	14.65	15.75

\* The clients contributing to the turnover were taken into account when calculating the average balance (energy, balance, other clients, clients with invoices to issue). Values corresponding to unsecure clients, the cogeneration scheme and the overcompensation were not included in the average balance.