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**National Power Grid Company  
TRANSELECTRICA SA**

**QUARTERLY REPORT  
January – March  
2017**

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**National Power Grid Company**  
**TRANSELECTRICA SA**  
**QUARTERLY REPORT**

**According to the provisions of article 67 from Law 24/ 2017 on the capital market and Regulation 1/ 2006 of the CNVM issued by the National Securities Commission, currently the Financial Supervision Authority (ASF)**

**For January – March 2017**

Date of the report:	15 May 2017
Name of the trading company:	National Power Grid Company TRANSELECTRICA SA, company managed under two-tier system
Headquarters:	Bucharest 1, Blvd. Gen. Gheorghe Magheru no. 33, postal code 010325
Working location:	Bucharest 3, Str. Olteni no. 2 - 4, postal code 030786
Phone / fax numbers:	004 021 303 5611/ 021 303 5610
Single code with the OCR:	13328043
Sequential number in the CR:	J40/ 8060/ 2000
Date of Company establishment:	31.07.2000/ OUG 627
Share capital:	733,031,420 Lei, subscribed and paid
Regulated market where the issued securities are transacted:	Bucharest Stock Exchange, Premium category
Main features of the issued securities:	73,303,142 dematerialised nominative ordinary indivisible shares of 10 Lei / share nominal value each, freely transactable from 29.08.2006 with TEL symbol  20,000 nominative dematerialised unsecured bonds of 10,000 Lei / bond nominal value each, transacted on the BVB in Credit Titles sector – Category 3 Corporate bonds under TEL 18 symbol in their category; maturity date 19.12.2018
Market value:	2,338,370,229 Lei (31.9 Lei/share on 31.03.2017)
Accounting standard applied:	International Financial Reporting Standards(IFRS)
Auditing:	Financial statements for Q1 2017 have not been audited

## **STATEMENT OF RESPONSIBLE PERSONS**

To the best of our knowledge the preliminary financial data for the 3 months' period ending on 31 March 2017 have been elaborated in accordance with the applicable accounting standards (International Financial Reporting Standards as they are approved by the European Union) and they provide a fair truthful image of the assets, liabilities, financial position, profit and loss account of the National Power Grid Company TRANSELECTRICA SA.

This report contains accurate full information with respect of the financial situation and activities of the National Power Grid Company TRANSELECTRICA SA.

**Bucharest, 14 May 2017**

**Directorate,**

<b>Ion-Toni TEAU</b>	<b>Constantin VADUVA</b>	<b>Octavian LOHAN</b>	<b>Mircea-Toma MODRAN</b>	<b>Georgeta-Corina POPESCU</b>
<b>Directorate Chairman</b>	<b>Directorate Member</b>	<b>Directorate Member</b>	<b>Directorate Member</b>	<b>Directorate Member</b>



## Key figures Q1 2017 vs Q1 2016

### KEY FIGURES

FINANCIAL HIGHLIGHTS		
<b>1,125</b> mil lei	<b>▲ 49.0%</b> y/y	<b>Revenues</b>
<b>170</b> mil lei	<b>▼ 14.3%</b> y/y	<b>EBITDA</b>
<b>71</b> mil lei	<b>▼ 28.3%</b> y/y	<b>Net profit</b>
<b>14.60</b> TWh	<b>▲ 4.1%</b> y/y	<b>Billed energy **</b>

OPERATIONAL		
<b>2.21*</b> %	<b>▼ 0.22pp</b> y/y	<b>OTC</b>
<b>11.64</b> TWh	<b>▲ 5.9%</b> y/y	<b>Transported energy***</b>

OTC One's own technological consumption (losses)

\* Share of technological consumption in the electricity taken by the transmission grid (transmitted energy)

\*\* The billed quantity is defined by the electricity amount taken out of the public interest electricity networks (the transmission grid and the distribution networks), minus electricity exports

\*\*\* The transmitted quantity is defined by the amount of energy physically carried within the transmission grid

INVESTMENTS		
<b>64.96</b> mil lei	<b>▲ 189.3%</b> y/y	<b>Purchase of tangible and intangible assets</b> ****
<b>15.38</b> mil lei	<b>▼ 37.3%</b> y/y	<b>Accounting registered fixed assets</b>

\*\*\*\* Not included unused advance for line Portile de Fier – (Anina) – Resita



## Financial data

The synthesis of preliminary financial results on 31 March 2017 is provided in the tables below. The financial results have not been audited, and their extended version is given in the Annexes of this Report.

SEPARATE STATEMENT OF PROFIT OR LOSS				
[mn RON]	Q1 2017	Q1 2016	Δ	Δ (%)
Charged energy volume- TWh	14,60	14,02	0.6	4%
<b>ALLOWED PROFIT ACTIVITIES</b>			<b>0</b>	
<b>Operating revenues</b>	<b>332</b>	<b>348</b>	<b>(16)</b>	<b>(5%)</b>
Transmission revenues	299	317	(19)	(6%)
System services revenues	19	17	2	12%
Other revenues	14	14	1	5%
<b>Operating expenses</b>	<b>173</b>	<b>138</b>	<b>35</b>	<b>26%</b>
System operating expenses	62	51	11	21%
Personnel expenses	21	19	2	9%
Repairs and maintenance expenses	41	41	0	0%
Other operating expenses	48	26	23	88%
<b>EBITDA</b>	<b>159</b>	<b>210</b>	<b>(51)</b>	<b>(24%)</b>
Depreciation	78	82	(3)	(4%)
EBIT	81	129	(48)	(37%)
<b>ZERO PROFIT ACTIVITIES</b>				
<b>Operating revenues</b>	<b>793</b>	<b>407</b>	<b>386</b>	<b>95%</b>
Technological system services revenues	170	177	(7)	(4%)
Balancing market revenues	623	230	393	171%
<b>Operating expenses</b>	<b>783</b>	<b>420</b>	<b>363</b>	<b>87%</b>
Technological system services expenses	160	190	(30)	(16%)
Balancing market expenses	623	230	393	171%
EBIT	11	(12)	23	n/a
<b>ALL ACTIVITIES (WITH PROFIT ALLOWED AND ZERO-PROFIT)</b>				
Operating revenues	1.125	755	370	49%
Operating expenses	956	557	398	71%
<b>EBITDA</b>	<b>170</b>	<b>198</b>	<b>(28)</b>	<b>(14%)</b>
Depreciation	78	82	(3)	(4%)
<b>EBIT</b>	<b>91</b>	<b>116</b>	<b>(25)</b>	<b>(22%)</b>
Net finance result	(5)	2	(7)	n/a
<b>EBT - Profit before income tax</b>	<b>87</b>	<b>118</b>	<b>(32)</b>	<b>(27%)</b>
Income tax	16	19	(4)	(19%)
<b>Net profit</b>	<b>71</b>	<b>99</b>	<b>(28)</b>	<b>(28%)</b>

SEPARATE STATEMENT OF FINANCIAL POSITION				
[mn RON]	31 March 2017	31 december 2016	Δ	Δ (%)
<b>Non-current assets</b>				
Property, plant and equipment	3.142	3.190	(48)	(2%)
Intangible assets	14	14	0	(2%)
Financial assets	78	78	0	0%
Non-current assets	9	10	(1)	(7%)
<b>Total</b>	<b>3.243</b>	<b>3.292</b>	<b>(49)</b>	<b>(1%)</b>
<b>Current assets</b>				
Inventories	32	30	2	6%
Trade and other receivables	887	852	35	4%
Other financial assets	0	135	(135)	n/a
Cash and cash equivalents	977	934	43	5%
<b>Total</b>	<b>1.896</b>	<b>1.951</b>	<b>(55)</b>	<b>(3%)</b>
<b>TOTAL ASSETS</b>	<b>5.139</b>	<b>5.243</b>	<b>(104)</b>	<b>(2%)</b>
<b>Shareholders' Equity</b>	<b>3.179</b>	<b>3.108</b>	<b>71</b>	<b>2%</b>
<b>Non-current liabilities</b>				
Borrowings	454	502	(48)	(10%)
Other non-current liabilities	498	503	(5)	(1%)
<b>Total</b>	<b>952</b>	<b>1,005</b>	<b>(53)</b>	<b>(5%)</b>
<b>Current liabilities</b>				
Borrowings	154	138	16	12%
Other current liabilities	854	992	(138)	(14%)
<b>Total</b>	<b>1.008</b>	<b>1.130</b>	<b>(122)</b>	<b>(11%)</b>
<b>Total liabilities</b>	<b>1.960</b>	<b>2.135</b>	<b>(175)</b>	<b>(8%)</b>
<b>Total shareholders' equity and liabilities</b>	<b>5.139</b>	<b>5.243</b>	<b>(104)</b>	<b>(2%)</b>

SEPARATE STATEMENT OF CASH FLOWS				
[mn RON]	Q1 2017	Q1 2016	Δ	Δ (%)
Cash flows before changes to working capital	186	196	(10)	(5%)
Cash flows after changes to working capital	10	(81)	91	n/a
Net cash from operating activities	7	(103)	110	n/a
Net cash used in investing activities	71	79	(8)	(10%)
Net cash used in financing activities	(35)	(39)	4	(10%)
<b>Net increase/decrease in cash and cash equivalents</b>	<b>43</b>	<b>(63)</b>	<b>106</b>	<b>n/a</b>
<b>Cash and cash equivalents as at 1 January</b>	<b>934</b>	<b>974</b>	<b>(40)</b>	<b>(4%)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>977</b>	<b>911</b>	<b>66</b>	<b>7%</b>



## OPERATIONAL RESULTS

### Billed volume of energy

In Q1 2017 the total electricity quantity billed for services provided on the electricity market (14.60 TWh) registered 4.00% increase compared to Q1 2016 (a +0.6 TWh difference between the two).

This trend was maintained in each month of Q1 2017, especially in January and February when, given the very low temperatures, the electricity consumption increased.

### Operational revenues

Total operational revenues achieved in Q1 2017 recorded 49% increase compared to the same period last year (1,125 mn RON in Q1 2017 from 755 mn RON in Q1 2016).

The segment of **profit allowed activities** registered 4.56% revenue drop (332 mn RON in Q1 2017 from 348 mn RON in Q1 2016), determined by diminished average tariffs of transmission services beginning with 1 July 2016, despite of increased electricity consumption.

Revenues from allocation of interconnection capacities increased with 8.98% compared Q1 2016 (24 mn RON in Q1 2017 from 22 mn RON in Q1 2016).

Taking in consideration increased energy consumption in the EU in January and February 2017 as consequence of low temperature values, a series of distortions were generated on the electricity market regarding electricity acquisition price on the PZU (Day-Ahead Market) and the capacity procurement price on interconnection lines, especially for export.

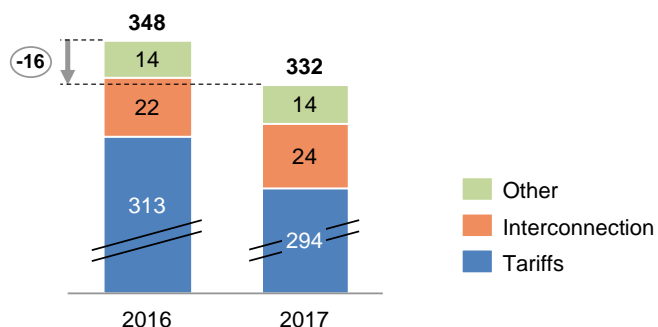
Beginning with 2016, the UIOSI principle was implemented on the Hungarian and Bulgarian borders, accordingly with, participants that do not use the capacity obtained after annual and monthly bids are paid for non-used capacity through market mechanism.

The market of interconnection capacities allocations is fluctuating, its prices being in accordance with the market participants' demand and need of interconnection capacity.

Revenues from the allocation of interconnection are used in accordance with article 22 paragraph (4) from ANRE Order 53/2013 and with article 16 paragraph (6) of EC Regulation 714/2009, as financing source for improvement and development of interconnection capacity with vicinity systems.

### Operating revenues from allowed profit activities

(mn RON)



\*includes transport revenues and tariffs from system operating expenses

Revenues from zero-profit activities increased with 94.74% (793 mn RON in Q1 2017 from 407 mn RON in Q1 2016) due to higher revenues on balancing market. Main factors of this increase were :

- Very low temperature values recorded during Q1 2017, which generated higher electricity consumption in NES functionality;
- Increased average deficit price registered on the balancing market;
- Increased negative imbalance of electricity suppliers on balancing market;
- Hydraulic level (low hydraulicity);
- Higher level of unpredictability and volatility of production from renewable sources (especially wind);
- Over- / sub-contracting on the markets previous to the balancing one (where BRP– had no notification values in case of significant imbalance) because of low participation / transaction on the intra-day electricity market.

In Q1 2017 revenues from technological services recorded a marginal drop of 4.16% compared to Q1 2016 due to decrease of average tariffs for technological system services beginning with 1 July 2016, in condition of increased electricity consumption.

### Operational expenses

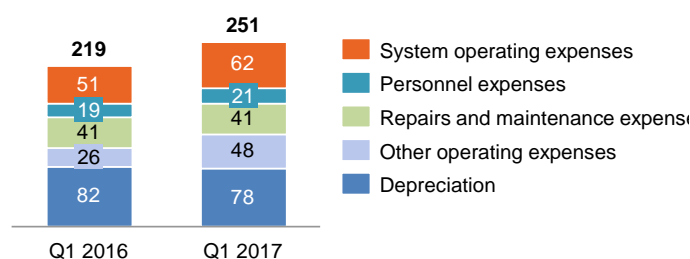
Total operational expenses (including depreciation) in Q1 2017 increased with 61.84% compared to the same period of last year (1.034 mn RON from 639 mn RON in Q1 2016).

As regards the segment of **profit allowed activities**, expenses (without depreciation) increased with 25.61% (173 mn RON from 138 mn RON in Q1 2016).



### Operating expenses from allowed profit activities

(mn RON)



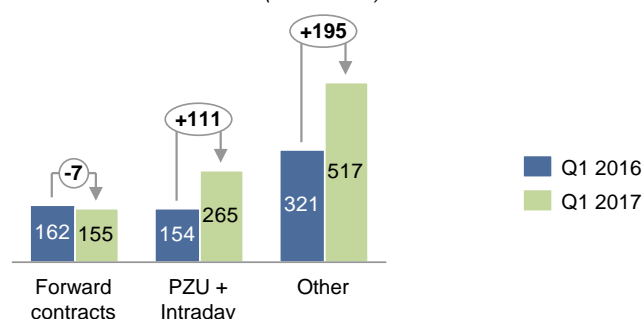
**OTC:** The total cost of procurement of electricity necessary in order to cover the own technological consumption increased with 27.19% in Q1 2017 comparing with the same period of 2016.

Energy need for OTC was lower in Q1 2017 257 GWh compared to 267 GWh in Q1 2016.,

The average procurement unit cost recorded significant increase with 31.62% (240 Lei/MWh in Q1 2017 compared to 182.4 Lei/MWh in Q1 2016), determined by very low temperature values in comparison with the same period of 2016, corroborated with extended unavailability of important generating power plants.

### Average acquisition prices

(RON/MWh)



**Congestions:** Congestions (network restrictions) represent demands of electricity transmission exceeding technical capacity limits of the network, requiring corrective activities of system operator. This congestions occur when, at the time of scheduling or during the real time of functioning, circulation of power between two system nodes or zones leads to failure to comply safety parameters in operation system.

In Q1 2017 registered congestions were insignificant (0.04 mn RON ).

The segment of **zero-profit activities** registered a 86.56% cost increase (783 mn RON from 419 mn RON in Q1 2016), determined by increased expenses on the balancing market.

In January-March 2017 expenses regarding technological system services registered a 15.89% de

crease compared with the same period of 2016, determined by:

- Diminished share of technological system services procured under regulated regime within total procurements of technological system services;
- Procurement acquisition prices of technological system services were lower on the competitive market in comparison with regulated procurement prices;
- Increased competitiveness on technological system services market in condition of lower average procurement prices for secondary reserve (RS) and slow tertiary reserve (RTL);
- National Power Grid Company TRANSELECTRICA SA is re-invoicing the value of technological system services procured from producers to ANRE-licensed electricity suppliers that benefit in the end of this services.

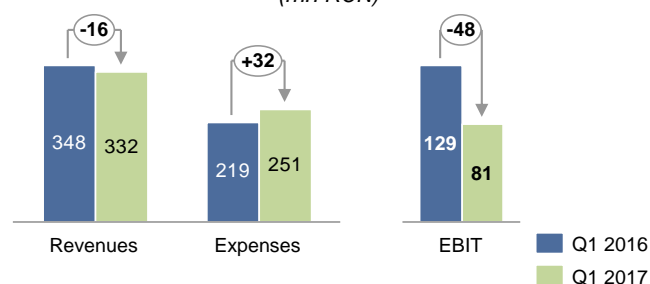
### Operational profit

**EBITDA** decreased with 14.35% in comparison with the same period of last year (169 mn RON from 198 mn RON in Q1 2016), this evolution being mainly caused by the diminished average tariffs approved by ANRE for transmission services.

**Profit allowed activities** registered 81 mn RON positive result, reduced from 129 mn RON due the diminished transmission tariffs.

### Allowed profit activities EBIT structure

(mn RON)



**EBIT** generated by **zero-profit activities** registered a positive result of 11 mn RON .

Looking at all activities, **EBIT** registered about 21.55% decrease (91 mn RON from 116 mn RON in Q1 2016).

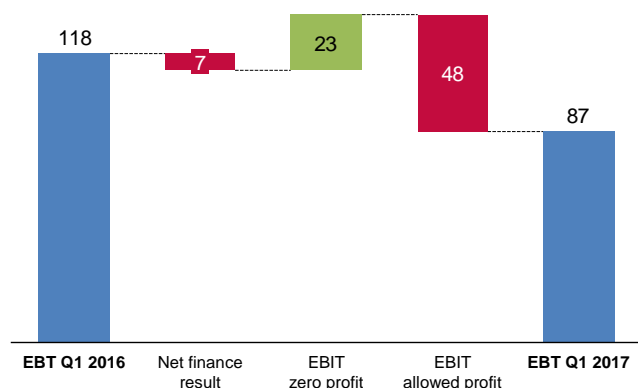
### Gross profit (EBT)

Gross profit registered 26.88% decrease from 118 mn RON in Q1 2016 to 87 mn RON in Q1 2017.

The evolution of the EBT is shown in the graph below:

### EBT evolution

(mn RON)



### Financial result

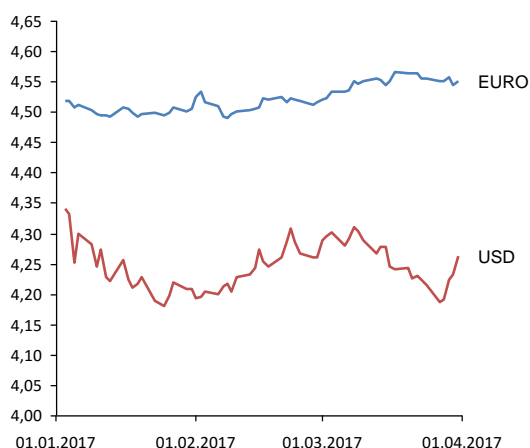
Net financial result registered in January-March 2017 was negative, (-5 mn RON), due to differences of exchange rate.

Expenses with interest rates decreased with 0.7 mn RON compared to last year

Negative evolution of exchange rate differences was mainly determined by exchange rate of national currency in relation with foreign currencies in which Transelectrica contracted bank loans for investments (especially in EURO).

Net loss registered in Q1 2017 was 0.6 mn RON, with 7.1 mn RON smaller than in Q1 2016.

### Exchange rate evolution Q1 2017



### Net profit

Net profit registered 28.28% decrease in comparison with Q1 2016 (71 mnRON from 99 mn RON), an evolution mainly determined by decreased revenues from electricity transmission services.

## FINANCIAL POSITION

### Non-current assets

Non-current assets registered 1.48% decrease on 31 March 2017 compared to 31 December 2016, due to the corresponding depreciation of the first 3 months of 2017, which was registered against the background of increased amounts of tangible assets in progress.

Tangible assets also include the down payments granted to the asset suppliers amounting to 87 mn RON out of which the amount of 31mn RON has been granted to the supplier ELCOMEX - IEA SA for performing the projects:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV station – down payment amounting to 10 mn RON;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV station – down payment amounting to 21mnRON.

The down payments made to ELCOMEX - IEA SA are secured with the insurance policies issued by Asito Kapital S.A.

On April 7th, 2017 the Court of Constanta, Section II Civil, upheld the application for a declaration of insolvency of the debtor ELCOMEX – IEA SA.

On March 31st, 2017 the Company registered long-term receivables amounting to 9.1mn RON (9.8mn RON at December 31st, 2016), representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high efficiency cogeneration.

The overcompensation of the activity regarding the support scheme for the year 2016 for Electrocentrale Oradea is subject to an Addendum to the Contract for taking over the liability by Termoficare Oradea and it shall be cashed in in instalments starting with the month of October 2018 (after the complete payment of the amount of 29.3mn RON), and the amount of 4.6 mn RON has been reclassified under Long-Term Receivables, with due date larger than 1 year.

Thus, the sum of 9.1 mn RON with due date larger than 1 year has been reclassified under Long-Term Receivables and is represented by:

- overcompensation for the year 2016 in the amount of 4.6mn RON;
- overcompensation for the year 2015 in the amount of 4.5mn RON.

## Current assets

Current assets registered 2.82% decrease at 31 March 2017 (1,896 mn RON) in comparison with the value registered on 31 December 2016 (1,951 mn RON), as it was impacted by the 35 mn RON higher trade receivables and the net 92 mn RON decrease of cash and financial deposits constituted for more than 90 days, against of background of stocks greater with 2 mn RON.

On March 31st, 2017, the current customers in the operational activity registered a decrease compared to December 31st, 2016, which was mainly determined by:

- rise in the collection of receivables level;
- reduction of the tariffs for transmission services and technological system services, approved by ANRE for the services provided by the Company, beginning with July 1st, 2016.

The weight of the main customers on the electricity market is about 54% in the Total Gross Receivables.

The current receivables for the balancing market, amounting to 124.8mn RON also include the amount of 9.1mn RON with an age of maximum 180 days, for which the Company has sued the company Elsaco Energy in order to recover the unpaid receivables. Depending on the decision of the court, the fulfillment of the conditions will be analyzed in the following period regarding the registration of adjustments for depreciation of this receivable.

On 31 March 2017 the Company registered approximately 37% (21% on 31 December 2016) receivable liabilities for the bonus type support scheme to promote high efficiency cogeneration from the total commercial liabilities.

On March 31st, 2017, the Company registered receivables to be cashed from the bonus type support scheme for promoting the high efficiency cogeneration in a proportion of approximately 37% (December 31st, 2016 - 21%) of the total trade receivables.

The customers from the bonus type support scheme for promoting the high efficiency cogeneration registered an increase in the receivables on March 31st, 2017, mainly determined by the receivables amounting to 139.9mn RON registered according to the ANRE Decisions issued in the month of March 2017, on the overcompensation of the activity regarding the support scheme for the year 2016.

On 31 March 2017 the Company registered receivables amounting to 133.3 mn RON, represented by issued

invoices associated to the bonus type support scheme to promote high efficiency cogeneration, of which:

- 2011-2013 overcompensation amounting to 77 mn RON, namely from RAAN – 64 mn RON and from CET Govora SA – 13 mn RON ;
- Undue 2014 bonus amounting to 4 mn RON , namely from RAAN – 2 mn RON , CET Govora – 2 mn RON ;
- Undue 2015 bonus amounting to 0.6 mn RON , namely from CET Govora;
- 2015 overcompensation amounting to 15 mn RON , namely from Electrocentrale Oradea (debt taken over by Termoficare Oradea);
- 2016 overcompensation amounting to 135 mn RON , of which: Electrocentrale Bucharest – 90 mn RON , Veolia Energie Prahova – 25 mn RON , CET Govora – 9 mn RON , Veolia Energie Iasi – 5 mn RON , Thermoenergy Group – 2 mn RON ;
- Contribution for cogeneration not collected from the suppliers of electricity consumers amounting to 24 mn RON , of which: Transenergo Com – 6 mn RON , PetProd – 4 mn RON , Romenergy Industry – 3 mn RON , RAAN- 2 mn RON , Arelco Power – 2 mn RON

For discharging the receivables generated by the overcompensation and the undue bonus, the Company requested the reciprocal compensations from the qualified producers in the support scheme. For producers (RAAN, Electrocentrale Bucuresti, CET Govora) that have not agreed to this way of discharging the reciprocal receivables and debts, the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no. 116 / 2013 for approving the Regulation on determining the way to collect the contribution for high efficiency cogeneration and payment of the bonus for the electricity produced in high efficiency cogeneration: 'if the manufacturer did not make the payment in full to the administrator of the support scheme for its obligations resulted in accordance with the provisions of this Regulation, the administrator of the support scheme pays to the producer the difference between the invoices issued by the producer and the payment obligations of the producer on the support scheme, with explicit mention on the payment document of the respective amounts', and detained from payment the amounts due related to the corresponding support scheme.

CNTEE Transelectrica has concluded an agreement with CET Govora on compensation and rescheduling of payments for the amounts representing the equivalent receivables from the counter value of the overcompensation for the timeframe 2011 - 2013 and of the undue bonus for 2014 (Agreement no. C 135 / June 30th, 2015 and Addendum no. 1 / August 4th, 2015). The period of the Agreement was 1 year (timeframe July 2015 - August 2016) and stipulated the Company's right to calculate and collect payment penalties over the installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to Article 17 (5) from the Order of the ANRE Chairman no. 116 / 2013 and the provisions of the Agreement, in the amount of 40.5mn RON.

Following the suspension in court, by Civil sentence no. 3185 / November 27th, 2015, the ANRE Decision no. 738 / March 28th, 2014 on setting the overcompensation amount for the timeframe 2011 - 2013, CET Gavora SA no longer respected the obligations undertaken according to the Agreement.

Starting with May 9th, 2016, the general insolvency proceedings were opened for CET Govora. To recover its receivables recorded before the insolvency proceedings, the Company applied the specific procedures provided by the Law no. 85 / 2014 on Insolvency and requested admission of its receivables, according to the law.

Given the abovementioned facts, starting with May 9th, 2016, the Company has terminated the enforcement of Article 17 (5) from the Order of ANRE Chairman no. 116 / 2013 on approving the Regulation regarding the settlement of the collection procedure of the high efficiency cogeneration contribution and the payment of the bonus for the electricity produced via high efficiency cogeneration, and has paid the cogeneration bonus to CET Govora on a monthly basis.

Via Civil Decision no. 2430 / October 5th, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil Ruling no. 3185 / November 27th, 2015, has partially cancelled the sentence and has rejected the suspension request lodged by CET Govora, the judgement being final. Thus, starting with October 10th, 2016, the effects of the ANRE Decision no. 738 / March 28th, 2014 are no longer suspended, being in full effect.

Under these circumstances, the Company enforces the provisions of Article 17 (5) of the ANRE Order no. 116 / 2013 for the reciprocal debts and receivables occurred after the insolvency proceedings, retaining the bonus owed to CET Govora SA up to the amounts unpaid to the Company according to the support scheme.

In the month of September 2016, CNTEE Transelectrica SA has concluded an agreement with SC Termoficare Oradea, to take over the debt of SC Electrocentrale Oradea, representing the overcompensation for the year 2014 and 2015. The overtaken debt, in the amount of 29.3mn RON has been spread over 24 monthly instalments (October 31st, 2016 - September 30th, 2018), and the amount of 4.5mn RON has been reclassified under Long-Term Receivables, with maturity of over 1 year .

Moreover, the overcompensation of the activity regarding the support scheme for the year 2016 for Electrocentrale Oradea is subject to an Addendum to the agreement for taking over the liability by Termoficare Oradea and it shall be collected in instalments starting with the month of October 2018 (after the complete payment of the amount of 29.3mn RON), and the amount of 4.6mn RON has been reclassified under Long-Term Receivables, with due date larger than 1 year .

On December 8th, 2016, by Government Decision no. 925, the amendment and supplement have been adopted for GD no. 1215 / 2009 on setting the necessary criteria and conditions to implement the support scheme for promoting the high efficiency cogeneration based on the useful heat demand.

Thus, on March 31st, 2017 the Company does not register provisions for the support scheme, the unrecovered value of these receivables being included in the cogeneration contribution.

## Liabilities

**Non-current liabilities** registered 5.3% decrease on 31 March 2017, mainly because reimbursements were made in accordance with existing loan agreements.

**Current liabilities** also registered 10.8% decrease on 31 March 2017 mainly determined by:

- Decreased liabilities to the suppliers from operational activities associated to the electricity market, determined by the payment of pay obligations on balance on the electricity market on 31 December 2016, when transactions associated to operational activities on balance on 31 March 2017 registered decrease compared to 31 December 2016 because the average

procurement price for OTC increased in quarter I 2017 compared to the average procurement price from Q1 2016 (from 409,639,081 at 31 December 2016 to 303,272,127 at 31 March 2017)

Energetical crisis from Q1 2017, determined by lower temperatures comparing with the same period of 2016, coraborated with prolonging unavailability of the important power plants determined a prices increase of the Next Day, Intraday and Ballancing markets.

In Q1 2017, necessary energy for covering own technological consumption (OTC) was purchased from competitive energy market and from centralized bilateral contracts market (PCCB,PZU,PE,PI) . Average acquisition price decreased in Q1 2017 from 240.04 RON/ MWH to 182.37 RON/ MWH in Q1 2016.

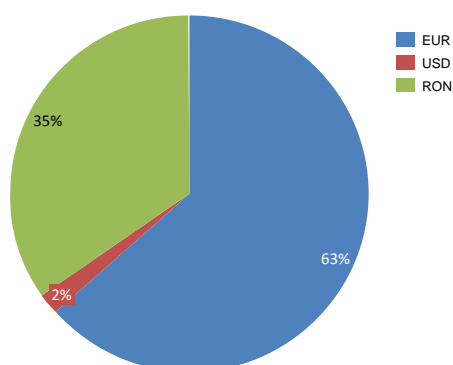
- Increased current borrowings for operational activities; the Company has contracted a credit line in March 2017 from BRD GROUP SOCIETE GENERALE SA, the Large Corporates Branch, for a period of 12 months for financing the bonus type support scheme for high efficiency cogeneration, in the form of overdraft amounting to 150,000,000, with an interest calculated according to the ROBOR 1M reference rate, plus a negative margin of 0.10%. In the event that the value of the ROBOR 1M reference rate is smaller than 0.10%, the interest rate applied shall be of 0%.

On March 31st, 2017 withdrawals from the credit line in the amount of 25.7mn RON were made.

The short term loans reduced eith 12mn RON compared to 31st, 2016.

The balance of long-term loans contracted from credit institutions by currency is presented as follows:

Liabilities structure at 31.03.2017



## Shareholder's equities

Equities registered a 2.3% slow increase, while the structure showed 13 mn RON decrease of revaluation reserves and 84 mn RON increase of retained earnings.

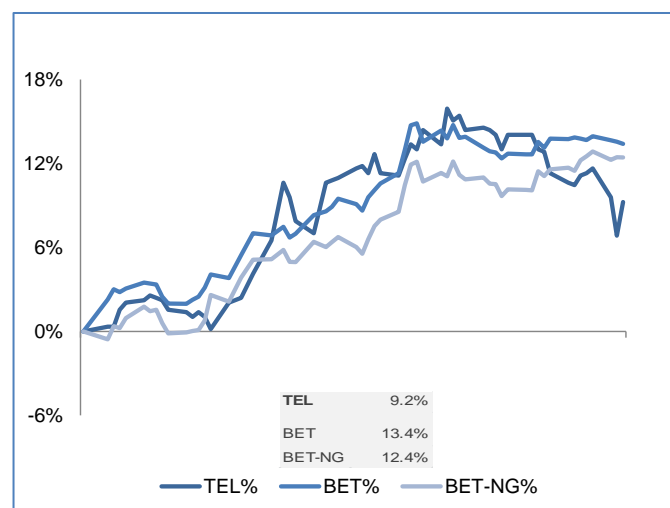
## SHARES EVOLUTION

(31-Dec-2016 to 31-Mar-2017)

In the first quarter of 2017 Transelectrica share (BVB symbol: TEL) registered diminished activity compared to the main index of the Bucharest Stock Exchange (BET) and also to the BET-NG.

2017 begin with 29.30 ron/share transaction price and stock exchange capitalisation being of 2,338 mn RON ; the end of the period (31 March 2017) found the share at price of 31.9 ron. On 20.01.2017 the minimum transaction price of 26.5 ron/share was recorded, while the maximum of 33.85 ron/share being reached on 28.02.2017.

TEL vs BSE indices 31.03.2017







## Operational data

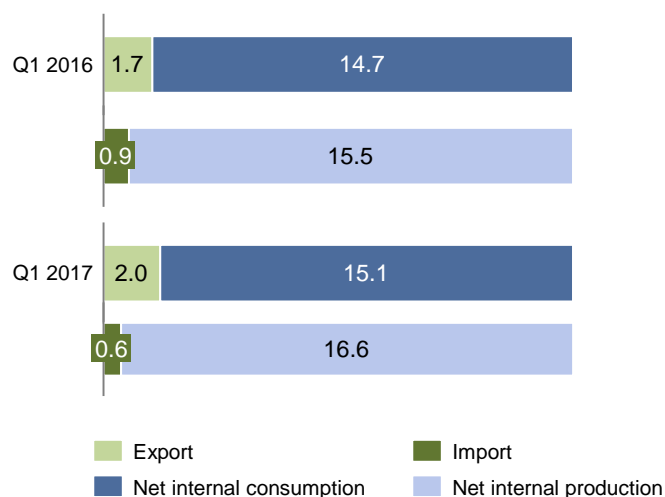
### ENERGY BALANCE WITHIN NES

The net<sup>1</sup> domestic consumption grew with 3.1% in Q1 2017 and the net power production increased with 6.5% in Q1 2017 compared to the same period of last year.

Physical cross-border flows exchanges increased with 17.8% compared to the same period of 2016, while importing cross-border flows registered a 29.5% decrease

Nes energeting balance evolution

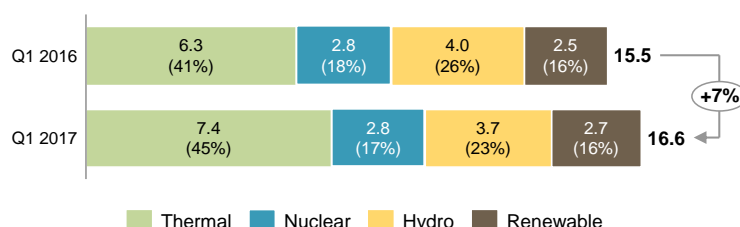
(TWh)



hydropower one (23%) , while the energy generated from renewable and nuclear sources have approximately 17% share each.

Net electricity production mix evolution

(TWh)



### NATIONAL PRODUCTION PARK

In Q1 2017 gross installed capacity in electric power plants increased with 0.4% in comparison with Q1 2016.

The installed capacity of renewable source increased approximately with 1.8%, from 4,452 MW installed on 31 March 2016 to 4,533 MW installed on 31 March 2017.

The structure of installed capacity in Q1 2017 and Q1 2016 is given below:

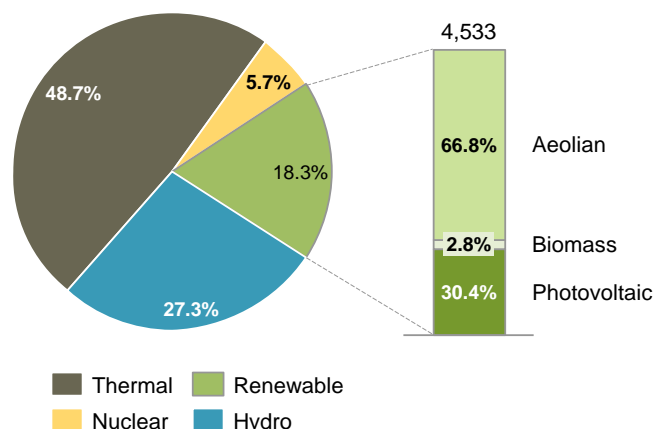
### PRODUCTION MIX

Analyzing the production mix structure Q1 2017 compared Q1 2016 is observed 16.9% increase in the share of the thermal component and about 9.1% increase in the production from renewable sources

The contribution of the hydro and nuclear components decreased with 6% (3.7 TWh compared to 4 TWh) and respectively with 1.3%.

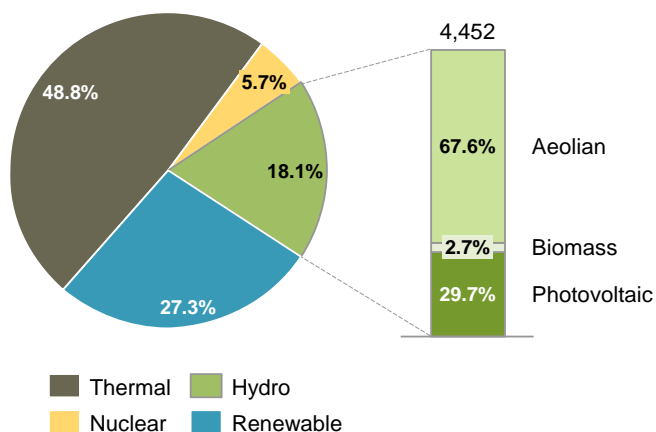
Analyzing the shares of components from the production mix of Q1 2017, the greatest share (45%) is represented by thermal power component, followed by the

Installed power Q1 2017 (24.726 MW, gross)

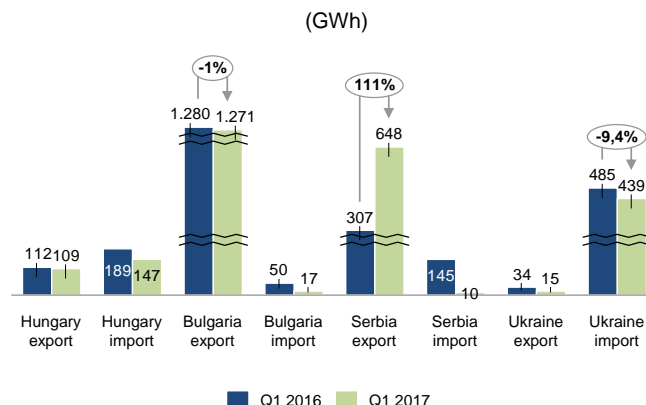


<sup>1</sup> Values do not include the consumption of one's own auxiliary services from electricity generating power plants; the net consumption value includes the losses of transmission and distribution networks and the consumption of pumps from pumping storage hydropower substations

Installed power Q1 2016 (24.625 MW, gross)



Physical flows



## OWN TECHNOLOGICAL CONSUMPTION

In Q1 2017 the OTC in RET decreased about 3.77 % compared to the same period of 2016 due to more favourable meteorological conditions better, flows production structure and smaller precipitation quantities.

Losses decreased from 2.43% to 2.21% reported to power input.

## CROSS-BORDER FLOWS

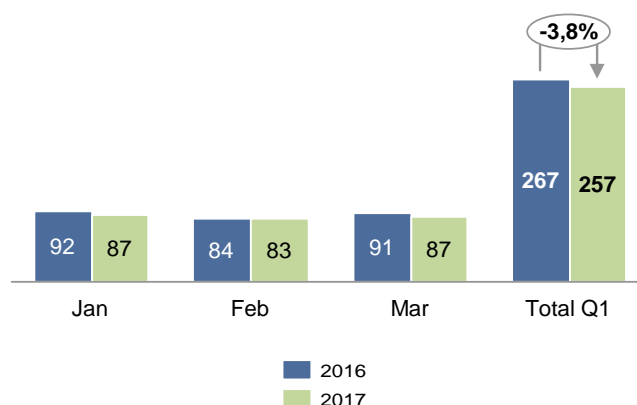
In comparison with Q1 2016 physical import flows decreased in relation with Hungary and Serbia.

The evolution of export flows recorded an increase of 23 pp in relation with Serbia, while a 35 pp decrease was registered in relation with Bulgaria.

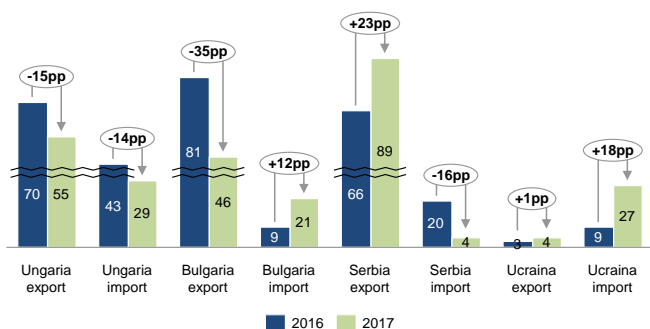
Thus in comparison with Q1 2016 physical export flows increased with Serbia (111%, +341 GWh), while minor decreases were registered in relation with Hungary, Bulgaria and Ukraine.

Examining the physical import flows decreases are noticed in all relations.

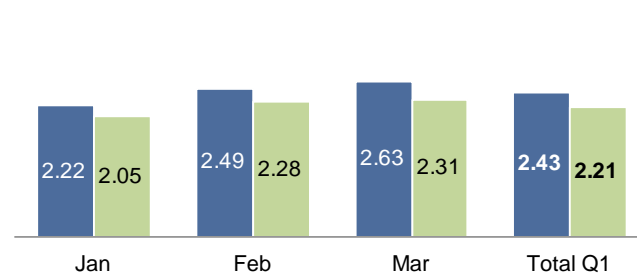
OTC evolution(GWh)



Usage rate of total allocated capacity\* (%)



OTC evolution(%)



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



## **REDUCTION FACTORS OF OTC**

In **January** 2017 the value of OTC decreased about 5.74% in comparison with January 2016 because of better import/export flows and better distribution of output, which led to reduced power transmission at long distances from sources. The percentage of losses reported to the power input in the RET dropped from 2.22% in 2016 to 2.05% in 2017. The net domestic consumption of energy was higher by 4.29% compared to January 2016. The energy input also increased with 1.72% in January 2017 compared to the same period of 2016. Meteorological conditions were better and the considerably lower amounts of precipitation determined smaller corona losses.

In **February** 2017 the value of OTC decreased about 1.31% then in February 2016 as a result of more favourable physical flows but also of a day less (2016 was bisect year). The percentage of losses reported to the power input in RET decreased from 2.49% in 2016 to 2.28% in 2017 as a result of higher amounts of transmitted energy. The net energy consumption was 3.7% higher in February 2017 compared to February 2016. The energy input increased with 7.74% in February 2017 compared to the same period of 2016. Meteorological conditions were better and the precipitation amount was lower than in the previous year.

In **March** 2017 the value of OTC decreased comparing with March 2016 with 2.03 % due to better meteorological conditions (which determined decreased corona losses) and advantageous production structure (which lead to a reduction of the power transportation to the sources). The percentage of the losses reported to the energy entered in RET decreased from 2.63% in 2016 to 2.31% in 2017 due to increased entered energy with 9.14% in March 2017 comparing with the same period of the 2016. Net internal consumption of power increased with 1.1% in March 2017 comparing with the same period of the year. Meteorological conditions were much favorable, the registered precipitation quantity being lower than last year.



## Investments

### NON-CURRENT ASSETS

The amount of non-current assets recorded in accounting in quarter I 2017 was of 15.38 mn RON .

The largest transfers from tangible assets in progress into tangible assets in the timeframe January - March 2017 are mainly represented by the startup of the investment objectives, as follows:

- Integrated security system in electric stations, stage IV on the Rosiori 400/220 kV station, the Oradea Sud 400/110/20 kV station, the Paroseni 220 kV station – 8 mn RON ;
- Replacing AT and TRAFO in electrical stations - Stage II – 6 mn RON ;
- Upgrading the control building from the Roman Nord 400/110/20 kV station – 0.7 mn RON ;
- Special intervention beams, Universally Anchored Portal type for the 220 - 400 kV tension, including prefabricated foundations – 0.6 mn RON ;
- Used storage systems – 0.06 mn RON;
- Hardware – network equipment – 0.04 mn RON;
- DSIC – Consulting – 0.04 mn RON;
- The coexistence and risk analysis of the 220 kV OHL from the vicinity of the plot property of VCST AUTOMOTIVE PRODUCTION SRL, place Alba Iulia – 0.04 mn RON.

### CAPEX

The acquisition of property, plant & equipment and of intangible assets<sup>2</sup> amounted to 65 mn RON in Q1 2017 compared to Q1 2016 when procurements amounted to 22.5 mn RON .

The investment projects under execution on 31 March 2017 are as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV station – 79 mn RON ;
- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 69 mn RON ;

- Technical upgrade of the Campia Turzii 220/110/20 kV station – 37 mn RON ;
- Integrated security system in electric stations, stage IV – 18 mn RON ;
- Converting the Portile de fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV - stage I - 400 kV OHL s.c. Portile de fier - (Anina) – Resita – 17 mn RON ;
- Extending the services of business continuity and recovery after disasters – 14 mn RON ;
- Upgrading the Suceava 110 kV and 20 kV station – 12 mn RON ;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV station – 11 mn RON ;
- Cernavodă-Stâlpu 400 kV OHL d.c. and connection in Gura Ialomiței – 8 mn RON ;
- Urgent repair of the Iernut-Gadalin 400 kV OHL and of the Iernut-Baia Mare 3 220 kV OHL – 7 mn RON ;
- Converting the Portile de fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV - stage I - Resita 400/220/110 kV station – 6 mn RON ;
- 400 kV HVDC Link (submarine cable Romania - Turkey) – 6 mn RON ;
- 400 kV OHL Gadalin - Suceava, including the NES interconnection – 6 mn RON ;
- Upgrading the Tihau 220/110 kV station - primary equipment – 5 mn RON ;
- Technical upgrade of the Hasdat 220/110 kV station – 4 mn RON ;
- Reparation of the failure of the 110-120 terminals of the Bucharest Sud - Ghizdaru 220 kV OHL – 4 mn RON ;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV station – 4 mn RON ;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory – 4 mn RON ;
- Extending the control system with new functions and IT registration of access in the objectives of CNTEE Transelectrica SA – 3 mn RON ;
- Converting of the Portile de fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage II - Resita - Timisoara – Sacalaz 400 kV OHL d.c. (Timisoara 220/110kV station) – 3 mn RON ;

<sup>2</sup> It includes the turnover of asset suppliers on balance on 31 March 2017

- Connecting the 136 MW wind power plant Platonesti, Ialomitia county, to the Grid through constructing a 119kV cell in the Gura Ialomitei 400/110 kV station – 3 mn RON ;
- Integrated security system in electric stations, stage III – 3 mn RON ;
- Upgrading the Arefu 220/110/20 kV station – 3 mn RON ;
- Upgrading the Raureni 220/110/20 kV station – 3 mn RON ;
- By-passing the Cetate 110 kV OHL 1 & 2 in the proximity of the Ostrovul Mare 110/20/6 kV station – 3 mn RON ;
- Assembling the optic fiber and upgrading the system of distance protections on 400 kV OHL d.c. Tantareni-Turceni and 400 kV OHL s.c. Urechesi-Rovinari – 2 mn RON ;
- Connecting the 147 MW Valea Dacilor wind power plant to the Grid – 2 mn RON ;
- Gutinas – Smardan 400 kV OHL d.c – 2 mn RON ;
- Executive - DCBPA / CPA: Consolidation, upgrading and extension of the CNTEE 'Transelectrica' headquarters – 2 mn RON ;
- Deploying an optical fiber line between the Bradu 400/220/110 KV station and the Stuparei 220/110 KV station – 2 mn RON ;
- Replacing the connectors from electrical stations – 1 mn RON ;
- Replacing the 110/20 kV TRAFO, 10 MVA in the Fantanele 220/110/20 kV station – 1 mn RON ;
- Deploying an optical fiber line between the 110 kV Pitesti Sud station and the remote control and installation supervision center – 1 mn RON ;
- Connecting the Stupins 400 kV station to the Grid and connecting the Isaccea-Varna 400 kV OHL – 1 mn RON ;
- Oradea – Beckescsaba 400 kV OHL – 1 mn RON ;
- Connecting the Sarichioi, Tulcea county 33 MW wind power plant to the Grid, in the Zebil 110 kV cell from the Tulcea Vest 400/110 kV station – 1 mn RON ;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 1 mn RON ;
- Constanta Nord - Medgidia Sud 400 kV OHL d.c. (1 c.e.) – 0.5 mn RON ;
- Converting the Brazi Vest - Teleajen - Stalpu 220 kV OHL to 400 kV, including the purchase of the 400MVA 400/220/20 kV AT, extension works for the 400 kV and corresponding 220 kV stations, in

the Brazi Vest 400/220/110kV station – 0.5 mn RON ;

- Upgrading the SCADA system for the Constanta Nord 400/110 kV station – 0.5 mn RON ;
- Converting the Portile de fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV - stage I - Extending the Portile de Fier 400 kV station – 0.4 mn RON .

## **CONTRACTUAL ISSUES**

The most important investment contracts signed in Q1 2017 are:

- Refurbishment the 400/110/20 kV substation Domnesti – 111.8 mn RON ;
- Major repair of the 400 kV OHL Roman Nord–Suceava – Execution – 13 mn RON ;



## Significant events

### EVENTS of JANUARY - MARCH 2017

- **Application of safeguard measures approved under GD 10/2017, published in the Official Gazette no. 40/13.01.2017**

After publication of Governmental Decision 10/13.01.2017 in the Official Gazette National Power Grid Company TRANSELECTRICA SA, in its capacity of Transmission and System Operator is mandated to apply the safeguarding measures of technical and commercial nature according to article 6, para (3) from the *Regulation determining the safeguarding measures under crisis occurring in the operation of the Romanian Power System*, approved by ANRE Order 142/2014.

- **"Proposal of SEE TSO-s of capacity calculation in order to designate long term transmission rights"**

On 24 February 2017 National Power Grid Company TRANSELECTRICA SA invited the stakeholders and electricity market participants from Romania to transmit their comments with respect to the online consultation on the All TSO-s Proposal of SEE for capacity calculation in order to determine the long term transmission rights, according to article 31 from Regulation (EU) 2016/1719 of the Commission of 26 September 2016 determining the direction with respect to allocating capacities on the long term market.

- **Report regarding the environmental impact of the 400 kV Overhead Line Gadalín – Suceava project**

The Company announced the interested public about its submitting the environmental impact report, which includes the conclusion of the adequate assessment study for the 400 kV overhead line GADALÍN–SUCEAVA project, including its interconnection to the Romanian Power system, proposed to be located in counties Cluj, Bistrița-Năsăud and Suceava.

- **Fitch Ratings credit rating**

Beginning with January 2017 the Company concluded a contract with the international credit rating company Fitch Ratings.

- **Incident in Hasdat substation**

On 05.03.2017 at 18:39 h a piece of equipment (circuit breaker) failed in the 220/110 kV substation Hasdat, which caused several tripping of equipment belonging to Transelectrica SA in the Jiu Valley region (in the 220/110 kV substations Hasdat, 220/110 kV Baru Mare and 220 kV Paroseni), this in turn de-energised part of Hunedoara County, the region supplying electricity to coal mines (pit coal) belonging to the Energy Complex Hunedoara. All consumers were re-supplied very quickly at 18:50 h.

Following such incident no equipment breakdown was registered or malfunctions of consumers whose electricity supplied was discontinued 11 minutes, including the coal mines Paroseni, Uricani, Vulcan, Lupeni, Lonea and Livezeni. Being a Sunday, mining activities were halted. The total interrupted consumption was 47 MW, and the power not supplied to consumers amounted 8.6 MWh.

The 220/110 kV substation Hasdat is under refurbishment and at present all documents are ready in order to begin the procurement procedure for refurbishment works.

- **Change in Directorate**

On 13 March 2017 Mr Ion Toni TEAU gave up his entrusted mandate of member and chairman of Directorate of National Power Grid Company TRANSELECTRICA SA beginning with 26 April 2017

Mr Ion-Toni TEAU took over directorate chairman in National Power Grid Company TRANSELECTRICA SA on 11 May 2014, and his mandate should have ended on 16 September 2017.

On 29 March 2017 Mrs Corina Georgeta POPESCU was appointed Directorate member by the Supervisory Board during the remaining validity of her predecessor's mandate, namely until 16 September 2017.

- **Changes in Supervisory Board**

On 31 January Supervisory Board members appointed Mr Ciprian BOLOS in the position of provisional Supervisory Board member.

On 27 March 2017 Mr Ciprian BOLOS gave up the entrusted mandate of provisional Supervisory Board member in National Power Grid Company TRANSELECTRICA SA.

On 31 March 2017 Mr Stefan-Valeriu IVAN was appointed provisional Supervisory Board member, which mandate will expire on 30.05.2017, date when the mandates of Supervisory Board members in office will expire.

## **LATER EVENTS**

- **End of mandate contract**

On 19 April 2017, taking into account Mr Ion-Toni TEAU's renouncement to the entrusted mandate of member and chairman of Directorate of National Power Grid Company TRANSELECTRICA SA beginning with 26 April 2017, he was asked to have its Mandate Contract C419/13.11.2014 end on 31 May 2017 by both parties' agreement. Mr Ion-Toni TEAU, member and chairman of Directorate of National Power Grid Company Transelectrica SA agreed on 21 April 2017 the Supervisory Board's request, therefore his Mandate contract of member and chairman of Directorate of Transelectrica SA will end on 31 May 2017.

- **Acceptance of Directorate member mandate**

On 05 April 2017 Mrs Georgeta - Corina POPESCU signed the statement of acceptance for the mandate of member in Directorate of National Power Grid Company Transelectrica SA, her appointment becoming effective on 1 May 2017, according to the mandate acceptance statement.



## Other issues

### SHAREHOLDERS' STRUCTURE

On 31.03.2017 the shareholders' structure was as follows:

Shareholder's name	No. of shares
Romanian State through the Ministry of Economy, Trade and Liaising with the Business Environment	43,020,309
Other shareholders - legal persons	25,755,807
Other shareholders - natural persons	4,527,026
<b>Total</b>	<b>73,303,142</b>

### TARIFFS

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

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

- The new tariffs approved were calculated in accordance with applicable methodologies.

### DIRECTORATE MEMBERSHIP

On 31.03.2017 the Directorate membership was as follows:

Ion - Toni TEAU	Directorate Chairman
Octavian LOHAN	Member
Constantin VADUVA	Member
Mircea-Toma MODRAN	Member

### Transmission tariff

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

"Ex-post" corrections contributed 7.2% to tariff decrease. The most important calculation elements included in the "ex-post" corrections applied in the calculation of the newly approved tariff are: (i) electricity procurement price to cover one's own technological consumption; (ii) the inflation index; (iii) using a part of the revenues obtained from the allocation of the interconnection capacity as source supplementing the regulated tariff with a view to cover the regulated expenses; (iv) increased consumption and electricity export beyond the level initially forecasted by ANRE when designing the tariff.

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

- The indexed inflation index in the newly approved tariff (inferior to the inflation index used in the tariff calculation of last year) contributed -2.8% to tariff decrease;
- The basic revenue calculated as a sum of regulated costs (inferior to that calculated for last year, given the efficiency requirements imposed at the level of recognised operational costs) and the flattening of revenues during the regulatory



interval, these two elements cumulated a -0.8% contribution to tariff decrease.

#### **Tariff of functional system services**

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

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

The 7.9% tariff decrease was determined by:

- The negative correction applied in the newly applied tariff to compensate the profit estimated to be obtained in the tariff year 1 July 2015 - 30 June 2016 determined by significant reduction of procurement prices for power reserves by bid, compared to the positive correction included in the tariff corresponding to 1 July 2015 - 30 June 2016, as necessary to recover some historical loss. The corrections contributed -4.8% to tariff decrease;
- The recognised costs base in the newly approved tariff to procure power reserves in the tariff year 1 July 2016 - 30 June 2017 is smaller than the recognised costs base of the preceding tariff year 1 July 2015 - 30 June 2016, diminution caused against the background of reduced procurement prices for power reserves by bid in the last year. The reduced recognised costs contributed -3.2% to tariff decrease.

## **DISPUTES**

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

#### **▪ RAAN**

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

The disputed value of this file is 78,096mn RON. Transelectrica filed appeal against this sentence.

As a consequence of the partial registration of the total amount requested by Transelectrica in quantum of 89,361mn RON and taking into account Letter 4162/03.10.2016 whereby the judiciary liquidator informed us only the sum of 11,265mn RON was registered in the additional table under liabilities resulting from the continued activities of the debtor, and the sum of 78,096mn RON was rejected, contestation of the Additional liability table was submitted.

The deadline to submit the contestations of the liabilities incurred during the procedure was set for 9 October 2016, and the one for the settlement of such contestations of the liabilities produced during the procedure was set for 20 October 2016. Also the deadline was set for the elaboration and display of the final consolidated table, namely 10.11.2016

The Company filed contestation of the Table. The Mehedinti Tribunal has approved the proof of the

accounting expertise. The following hearing date was set on 25.05.2017.

#### **▪ ANRE**

National Power Grid Company Transelectrica SA filed a complaint against the Order of the ANRE Chairman no. 51 / June 26th, 2014, registered at ANRE under no. 47714 / August 4th, 2014, and an appeal before the Court of Appeal Bucharest, subject of the file no. 4921 / 2 / 2014, requesting either the amendment of the abovementioned Order, or the issuance of a new order, which should recalculate the RRR value at the level of 9.87% (recalculated with a ( $\beta$ ) coefficient of 1.0359, according to the internal analyses conducted by Transelectrica) or, should this request be rejected, using the same percentage of 8.52% set by ANRE for the year of 2013 and for the first semester of 2014.

On June 26th, 2014, the ANRE Order no. 51 was issued, published in the Official Journal under no. 474 / June 27th, 2014 on the approval of the average tariff for the transmission service, the tariff for the system service and the zonal tariffs for the transmission service, payable to the National Power Grid Company 'Transelectrica' - SA, and the repealing of Addendum no. 1 of the ANRE Chairman's Order no. 93 / 2013 regarding the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the



tariffs for the reactive electrical energy, payable to economic agents from the electricity sector.

The values taken into consideration for calculating the Regulated Rate on Return (RRR) by ANRE, according to the Methodology on establishing the tariffs for the electricity transmission service, approved by ANRE Order no. 53 / 2013 ('the Methodology') have determined a RRR value of 7.7%.

National Power Grid Company Transelectrica SA considers that the enforcement of the provisions of Article 51 of the Methodology on establishing the Beta ( $\beta$ ) parameter at the value of 0.43 shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138.4 mil. Ron, having a significant impact on the financial interests of the company.

At the hearing from February 9th, 2016, the court admitted the evidence with the audit expertise - specialization financial investments and other entities of movable goods, extended the discussion on the technical evidence discussion - electroenergetic specialization, after administering the evidence with the audit expertise - specialization financial investments and other entities of movable goods.

At the hearings from March 25th, 2016, April 22nd, 2016, June 10th, 2016 and March 3rd, 2017, the court postponed the judgement of the cause because of the missing technical expertise report. The next hearing was set for June 2nd, 2017.

#### ▪ CURTEA DE CONTURI

Following a verification conducted in 2013, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification. The decision and protocol issued by the Court of Auditors have been appealed before the Court of Appeal Bucharest, the file no. 1658 / 2 / 2014 being constituted.

At the hearing from January 20th, 2016, the court postponed the case so that the appointed accounting expert can express his point of view regarding the objections of the plaintiff against the expert report concerned and so that the technical expert can perform the expertise. On June 29th, 2016, the court postponed the case so that the technical expertise report may be finished. The next hearing was set on October 26th, 2016, and until the date of drafting this report, no other changes have been registered.

At the hearing from February 8th, 2017, the objections against the expert report have been notified. At the

hearing from March 22th, 2017, the case was postponed so that the technical expert can reply to the objections filed against the technical expertise report (second part) drafted in the case. Hearing: May 24th, 2017.

#### ▪ OPCOM

On November 24th, 2014, the subsidiary SC OPCOM SA summoned National Power Grid Company Transelectrica SA in order to force it to pay the amount of 582,086.31 euro (2,585,161.72 Ron at the National Bank of Romania exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro.

Also, the subsidiary SC OPCOM SA requested the court to order the Company to pay the amount of 84,867.67 Ron as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 37,828.08.

The action filed by the subsidiary SC OPCOM SA is subject of the file no. 40814 / 3 / 2014 on the dockets of the Bucharest Court, Section VI Civil, involving claims, litigation with professionals matter. National Power Grid Company Transelectrica SA has lodged counterclaim against the application for summons in this case, invoking exceptions and defenses on the main issue of the matter regarding the unfounded and unlawful character of the action.

On July 24th, 2015, the Bucharest Court ruled the judgement no. 4275 / 2015, by which it ordered the following: 'Admits the application for summons filed by plaintiff Romanian Gas and Electricity Market Operator - OPCOM S.A. against defendant National Power Grid Company 'Transelectrica' S.A. Orders the defendant to pay the plaintiff the amount of 582,086.31 euro, representing the amount paid by the plaintiff in the defendant's stead from the fine in the amount of 1,031,000 euro, imposed by the Decision of the European Commission on March 5th, 2014 in the case no. AT.39984 and of the lawful interest related to the amount of 582,086.31 euro, calculated on June 11th, 2014 and up until the day of the actual payment. Orders the defendant to pay the plaintiff the amount of 37,828.08 Ron, as legal expenses. With right of appeal within 30 days from notification. The request for appeal shall be lodged before the Bucharest Court - Section VI Civil.'

Against sentence no. 4275 / 2015, pronounced in the abovementioned file, Transelectrica SA filed an appeal, which was registered on the dockets of the Court of Appeal Bucharest. The resolution of the Court

of Appeal is the following: Admits the appeal. Changes the appealed civil sentence completely, meaning that it rejects the application for summons as ill-founded. Orders the appellee - plaintiff to pay the trial expenses to the appellant - defendant amounting to 16.129, representing legal stamp duty. With appeal within 30 days from notification. Ruled in open court today, October 10th, 2016. Document: Decision 1517 / 2016 October 10th, 2016.

OPCOM S.A. filed a second appeal. The case is in the filtering proceedings. The hearing is to be set.

#### ▪ SMART

Transelectrica has disputed in court the resolution of the ORC Bucharest director and the deeds issued by Subsidiary SC Smart SA to increase its share capital, which was instituted in file 14001/3/2015 on the docket of Bucharest Tribunal, Section VI Civil, with hearing date on 07.09.2015.

At the hearing date of 07.09.2015 the instance decided separating causes 2 and 3 from the suing action of claimant Transelectrica SA in contradiction with defendants Subsidiary of Maintenance Services in the Electricity Transmission Grid Smart SA, the Romanian State through the General Secretary of the Government and ONRC, thus constituting a new file with hearing date on 02.11.2015. In case of file 14001/3/2015, a new hearing date was set on 19.10.2015 to continue the suit.

At the hearing date of 19.10.2015 the instance decided, according to article 413 par 1 item 2 C civil suit, to suspend judging the suing action filed by claimant Transelectrica in contradiction with defendants Subsidiary of Maintenance Services in the Electricity Transmission Grid Smart SA, the Romanian State through the General Secretary of the Government and ONRC, until the final settlement of the cause which is the object of file 32675/3/2015 on the docket of Bucharest Tribunal, Section VI Civil.

On the hearing date 16.11.2015 in file 32675/3/2015 the court admitted the exception of inadmissibility, rejecting the suing action filed by claimant Transelectrica in contradiction with defendants Subsidiary of Maintenance Services in the Electricity Transmission Grid Smart SA, the Romanian State through the General Secretary of the Government and ONRC as inadmissible, with appeal right within 30 days from communication.

The Company filed appeal and on 23.05.2016 the law court denied it as groundless. It admitted the request to notify the Constitutional Court. In accordance with article 29 para 4 of Law 47/1992, it notified the Constitutional Court to settle the unconstitutionality exception of the provisions from article 114 par 3 of Law 31/1990 against the provisions of article 16, article 21 and article 44 of the Constitution, which exception was invoked by the Company. Such decision is final.

#### ▪ DAGESH ROM

File 17284/3/2015 pertains to the claims representing rent indexation and delay penalties thereof.

At the hearing date of 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 that they paid the fee .

At the public hearing date of 15.11.2016 Ruling 7230/2016 was pronounced: denying the request – the settlement in brief:

1. Admitted the exception of the prescription with respect to the claims represented by:

- The rent difference asked for 04.03.2012 - 12.05.2012;
- The penalties associated to the amount requested as rent difference calculated for 04.03.2012 - 12.05.2012;
- The service fee difference requested in 04.03.2012 - 12.05.2012;
- The penalties associated to the amount asked as difference in the service fee calculated for 04.03.2012 - 12.05.2012.

It denies such claims as barred.

2. It denies the other claims as groundless.

3. Obliges the claimant to pay the defendant 2250 Lei, as law suit expenses.

4. Appeal within 30 days from notification.

Appeal is to be filed with Bucharest Tribunal - Section VI Civil; pronounced at the public hearing of 15.11.2016, settlement 7230/2016 / 15.11.2016.



## Appendixes

## ANNEX 1: Separate Statement of Financial Position

[mn RON]	31 March 2017	31 December 2016	Δ	Δ (%)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	3,142	3,190	(48)	(2%)
Intangible assets	14	14	(0)	(2%)
Financial assets	78	78	0	0%
Non-current assets	9	10	(1)	n/a
<b>Total non-current assets</b>	<b>3,243</b>	<b>3,292</b>	<b>(49)</b>	<b>(1%)</b>
<b>Current assets</b>				
Inventories	32	30	2	6%
Trade and other receivables	887	852	35	4%
Other financial assets	-	135.09	(135)	n/a
Cash and cash equivalents	977	934	43	5%
<b>Total current assets</b>	<b>1,896</b>	<b>1,951</b>	<b>(55)</b>	<b>(3%)</b>
<b>Total assets</b>	<b>5,139</b>	<b>5,243</b>	<b>(104)</b>	<b>(2%)</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' Equity</b>				
Share capital, of which:	733	733	0	0%
<i>Subscribed share capital</i>	733	733	0	0%
Share premium	50	50	0	0%
Legal reserves	116	116	0	0%
Revaluation reserves	536	549	(13)	(2%)
Other reserves	57	57	0	0%
Retained earnings	1,686	1,602	84	5%
<b>Total shareholders' equity</b>	<b>3,179</b>	<b>3,108</b>	<b>71</b>	<b>2%</b>
<b>Non-current liabilities</b>				
Long term deferred income	426	430	(4)	(1%)
Borrowings	454	502	(48)	(10%)
Deferred tax liability	29	30	(1)	(5%)
Employee benefits obligations	43	43	(0)	0%
<b>Total non-current liabilities</b>	<b>952</b>	<b>1,005</b>	<b>(53)</b>	<b>(5%)</b>
<b>Current liabilities</b>				
Trade and other liabilities	721	874	(153)	(18%)
Other tax and social security liabilities	8	9	(1)	(11%)
Borrowings	154	138	16	12%
Provisions	54	54	(0)	0%
Short-term deferred income	38	38	(0)	(1%)
Income tax payable	34	17	17	98%
<b>Total current liabilities</b>	<b>1,008</b>	<b>1,130</b>	<b>(122)</b>	<b>(11%)</b>
<b>Total liabilities</b>	<b>1,960</b>	<b>2,135</b>	<b>(175)</b>	<b>(8%)</b>
<b>Total shareholders' equity and liabilities</b>	<b>5,139</b>	<b>5,243</b>	<b>(104)</b>	<b>(2%)</b>

## ANNEX 2: Separate Statement of Profit or Loss

[mn RON]	Q1 Actuals 2017	Q1 Actuals 2016	Q1 Budget 2017	Q1 Actuals 2017 vs 2016	Q1 Actuals 2017 vs 2016 (%)	Q1 2017 Actuals vs Budget	Q1 2017 Actuals vs Budget (%)
Operating revenues							
Transmission revenues	299	317	295	(19)	(6%)	3	1%
System services revenues	189	194	188	(5)	(3%)	1	1%
Balancing market revenues	623	230	643	393	171%	(20)	(3%)
Other revenues	14	14	14	1	5%	1	4%
<b>Total operating revenues</b>	<b>1,125</b>	<b>755</b>	<b>1,140</b>	<b>370</b>	<b>49%</b>	<b>(15)</b>	<b>(1%)</b>
Operating expenses							
System operating expenses	77	63	77	14	22%	(0)	(1%)
Balancing market expenses	623	230	643	393	171%	(20)	(3%)
Technological system services expenses	160	190	162	(30)	(16%)	(2)	(1%)
Depreciation and amortization	78	82	81	(3)	(4%)	(3)	(4%)
Personnel expenses	41	41	44	0	0%	(3)	(7%)
Repairs and maintenance expenses	14	15	14	(0)	(3%)	0	0%
Materials and consumables	2	2	3	(0)	(8%)	(1)	(42%)
Other operating expenses	39	17	32	22	126%	7	22%
<b>Total operating expenses</b>	<b>1,034</b>	<b>639</b>	<b>1,057</b>	<b>395</b>	<b>62%</b>	<b>(23)</b>	<b>(2%)</b>
<b>Operating profit</b>	<b>91</b>	<b>116</b>	<b>84</b>	<b>(25)</b>	<b>(22%)</b>	<b>8</b>	<b>9%</b>
Finance income	7	13	9	(6)	(49%)	(2)	(25%)
Finance cost	11	11	6	1	5%	5	81%
<b>Net finance result</b>	<b>-5</b>	<b>2</b>	<b>3</b>	<b>(7)</b>	<b>n/a</b>	<b>(7)</b>	<b>n/a</b>
<b>Profit before income tax</b>	<b>87</b>	<b>118</b>	<b>86</b>	<b>(32)</b>	<b>(27%)</b>	<b>0</b>	<b>0%</b>
Income tax	16	19	-	(4)	(19%)	16	n/a
<b>Net profit</b>	<b>71</b>	<b>99</b>	<b>86</b>	<b>(28)</b>	<b>(28%)</b>	<b>(15)</b>	<b>(18%)</b>

### ANNEX 3: Separate Statement of Cash Flows

[mn RON]	Q1 2017	Q1 2016	Q1 2017 vs 2016
<b>Cash flows from operating activities</b>			
Profit for the year	71	99	(28)
<b>Adjustments for:</b>	0	0	
Income tax expense	16	19	(4)
Depreciation and amortization	78	82	(3)
Expenses with impairment allowances for trade and other receivables	22	1	21
Increase in reversal of impairment allowances for trade and other receivables	(6)	(2)	(4)
Net loss on disposal of property, plant and equipment	0	0	0
Reversal of impairment allowances for property, plant and equipment	0	0	0
Net reversal of impairment allowances for provisions for risks and charges	(0)	(0)	(0)
Interest expense, interest income and unrealized foreign exchange gains	5	(2)	6
<b>Cash flows before changes to working capital</b>	<b>186</b>	<b>197</b>	<b>(11)</b>
<b>Changes in:</b>			
Clients and similar accounts	(50)	34	(83)
Inventories	(2)	(0)	(2)
Trade and other liabilities	(119)	(304)	185
Other taxes and social security liabilities	(1)	1	(2)
Deferred income	(4)	(8)	4
<b>Cash flows from operating activities</b>	<b>10</b>	<b>(81)</b>	<b>91</b>
Interest paid	(3)	(5)	1
Income tax paid	0	(17)	17
<b>Net cash from operating activities</b>	<b>7</b>	<b>(103)</b>	<b>110</b>
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment and of intangible assets	(65)	(22)	(43)
Proceeds from advances paid in the prior financial year and not used	0	30	(30)
Interest received	1	2	(0)
Dividends received	0	0	0
Other financial assets	135	70	65
<b>Net cash used in investing activities</b>	<b>71</b>	<b>79</b>	<b>(7)</b>
<b>Cash flows used in financing activities</b>			
Credit line for cogeneration	26	33	
Repayments of long-term borrowings	(60)	(72)	12
Dividends paid	(0)	(0)	(0)
<b>Net cash used in financing activities</b>	<b>(35)</b>	<b>(40)</b>	<b>5</b>
<b>Net increase in cash and cash equivalents</b>	<b>43</b>	<b>(64)</b>	<b>107</b>
<b>Cash and cash equivalents as at 1 January</b>	<b>934</b>	<b>974</b>	<b>(41)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>977</b>	<b>911</b>	<b>66</b>

#### ANNEX 4: Ratios for financial stability

Ratio		Q1 2017	Q1 2016
<b>Current liquidity ratio (x)</b>	<u>Current assets</u>	1.88	2.12
	Current liabilities		
<b>Indebtness ratios (x):</b>			
(1)	<u>Total liabilities</u> x 100	14	18
	Shareholder's equity		
(2)	<u>Total liabilities</u> x 100	12	15
	Capital employed		
<b>Days' Sales Outstanding (DSO) ratio</b>	<u>Number of days in the Period*</u>	18	21
	Accounts Receivable Turnover ratio		
<b>Non-current asset turnover ratio (x)</b>	<u>Turnover</u>	0.34	0.22
	Non-current assets		

\* The clients contributing to the turnover were taken into account when calculating the average balance (energy, balancing, other clients, clients with invoices to make). The values corresponding to doubtful clients, the cogeneration scheme and overcompensation have not been include in the average balance.



**Annex 5 REPORT (accordingly with HAGEA no. 4/29.04.2015) regarding contracts signed in Q1 2017 for goods, services and workings acquisitions which value exceeded 500.000 Euro/aquisition (goods and workings ) and 100.000 Euro/aquisition (for services)**

No.	Contract number	Contract object	Period	Value		Contract Type	Legal base	Aquisition procedure
				Mn RON	Mn Euro			
0	1	2	3	4	5	6	7	8
1	TM 17/2017	Replacement of AT2-200 MVA, 231/121/10,5 KV from station 220/110 KV Resita	12 months	4,550	0.00	Supply	Law 99/2016 + HG 394/2016	Open auction
2	BA 628/2017	RK-LEA 400 KV Roman Nord - Suceava - Execution	36 months	13,037.3	0.00	Workings	Law 99/2016 + HG 394/2016	Open auction
3	C 18/2017	Retehnologisation of 400/110/20 KV Domnesti station	36 months	0.00	24,897	Workings	OUG 34/2006 + HG 925/2006	Open auction
4	C 46/2017	Services for Oracle licenses technical support	36 months	3,615	0.00	Services	Law 99/2016HG 394/2016	Open auction
5	C 39/2017	Credit line revolving for supporting scheme functionality in optimal conditions	12 months	1,855.4	0.00	Services	Law 99/2016HG 394/2016	Simplified procedure
6	C 32/2017	"TRANSELECTRICA" SA cleaning services	36 months	971.4	0.00	Services	Law 99/2016 + HG 394/2016	Open auction
7	BC 515/2017	Vehicules repair and maintenance	24 months	599.9	0.00	Services	Law 99/2016 + HG 394/2016	Open auction

## Annex 6 – Glossary

„ANRE”	National Regulatory Authority for Energy
„BAR”	Regulated assets base
„BVB”	Bucharest Stock Exchange, Regulated market operator for trading Shares
„CEE”	European Economic Community
„Company”, „NPG”, „TEL”	National Power Grid Company Transelectrica S.A.,
„OTC”	Own Technological Consumption
„SB”	Supervisory Board
„DEN”	National Energetic Dispatcher
„EBIT”	Operational profit before the interests and profit tax
„EBITDA”	Operational profit before the interests, profit tax and amortization
„EBT”	Operational profit before the profit tax
„ENTSO-E”	The European Network of Transmission System Operators
„GD”	Government Decision
„IFRS”	Financial Reporting International Standards
„JPY”	Japanese Yen , the official currency of Japan
„OHL”	Overhead Power Lines
„Leu” or „Lei” or „RON”	The official currency of Romania
„MFP”	Ministry of Public Finance
„MO”	Romanian Official Gazette
„NES”	National Electric System
„GO”	Government Ordinance
„OPCOM”	Romanian Electricity Market Operator OPCOM SA
„GEO”	Government Emergency Ordinance
„PZU”	The Day-Ahead Market
„PTN”	PowerTransmission Network, national and strategic interest electric network with a nominal voltage greater than 110 kV
„NPS”	National Power System
„SMART”	Trading Company for the Electric Transport Network Maintenance SMART SA
„SSF”	Functional System service
„SST”	Technological System service
„TEL”	Stock exchange indicator for Transelectrica
„TSR”	Total efficiency for the Shareholders
„UE”	European Union
„u.m.”	Measuring unit
„USD” or “dolari US”	American Dollar, the official currency of USA