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**NATIONAL POWER GRID  
TRANSELECTRICA SA**

**PRELIMINARY REPORT  
January – December  
2017**

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**PRELIMINARY REPORT REGARDING THE ECONOMICAL AND FINANCIAL ACTIVITY OF NATIONAL  
POWER GRID COMPANY "TRANSELECTRICA" SA**

**according to the provisions of Article 67 of Law no. 24 / 2017 on the capital market and the CNVM  
Regulation no. 1 / 2006 issued by the National Securities Commission, currently the Financial  
Supervisory Authority (ASF)**

**for the period ending on December 31<sup>th</sup>, 2017**

Report date:	February 15 <sup>th</sup> , 2018
Company name:	National Power Grid Company TRANSELECTRICA SA, two-tier company
Registered office:	Bucharest, No. 33 Gen. Gheorghe Magheru Blvd., 3 <sup>rd</sup> district, ZIP code 010325
Operational office:	Bucharest, No. 2 - 4, Olteni Street, 3 <sup>rd</sup> District, ZIP code 030786
Telephone / fax:	021 303 5611 / 021 303 5610
Unique registration code:	13328043
Number in the Commercial Register:	J40 / 8060 / 2000
LEI Code (Legal Entity Identifier)	2549000LXOUQC90M036
Company's establishment date:	July 31 <sup>st</sup> , 2000 / OUG 627
Share capital:	733,031,420 lei, subscribed and paid
Trading regulated market for the issued securities:	Bucharest Stock Exchange, Premium Category
The main features of the issued securities:	73,303,142 shares with a nominal value of 10 lei / share, dematerialized, registered, ordinary, indivisible shares, freely tradable from August 29 <sup>th</sup> , 2016 under the TEL symbol.  20,000 bonds with a nominal value of 10,000 lei / bond, nominative, dematerialized and unsecured bonds, traded at the BSE, the Credit Title sector – 3 <sup>rd</sup> Category, corporate Bonds under the TEL 18 symbol, within the category; Maturity date December 19 <sup>th</sup> , 2018.
Total market value:	1,799,592,136 RON (24.55 RON / share at December 31 <sup>th</sup> , 2017)
Applied accounting standard:	International Financial Reporting Standards
Audit:	The financial statements drafted on December 31 <sup>th</sup> , 2017 are not audited

## **RESPONSIBLE PERSONS' STATEMENT**

To our knowledge, the preliminary financial data for the twelve-months period ended on December 31<sup>th</sup>, 2017, had been elaborated in accordance with the applicable accounting standards (International Financial Reporting Standards as approved by the European Union) and provide a correct and realistic view of National Power Grid Company Transelectrica's assets, bonds, financial position, profit and loss account.

This report contains correct and complete information regarding the financial and economic situation and the activity of National Power Grid Company Transelectrica SA.

**Bucharest, February 14<sup>th</sup>, 2018**

**Directorate,**

**Georgeta-Corina  
POPESCU**

**Andreea Georgiana  
FLOREA**

**Dan-Valeriu  
ARDELEAN**

**Mircea-Toma  
MODRAN**

**Florin-Cristian  
TĂTARU**

**Directorate  
Chairman**

**Directorate  
Member**

**Directorate  
Member**

**Directorate Member**

**Directorate  
Member**



## Key figures 2017 preliminary vs 2016

### Key figures

FINANCIAL		
<b>3,060</b> mil lei	<b>▲ 12.4%</b> y/y	<b>Revenues</b>
<b>379</b> mil lei	<b>▼ 43.8%</b> y/y	<b>EBITDA</b>
<b>26</b> mil lei	<b>▼ 90.3%</b> y/y	<b>Net income</b>
<b>54.75</b> TWh	<b>▲ 2.3%</b> y/y	<b>Charged energy volume**</b>

OPERATIONAL		
<b>2.18*</b> %	<b>▼ 0.14pp</b> y/y	<b>OTC</b>
<b>44.34</b> TWh	<b>▲ 1.52%</b> y/y	<b>Transmitted energy***</b>

OTC Own Technological Consumption

\* The value of own technological consumption in the electric energy taken over by the power transmission grid (transmitted energy).

\*\* The charged quantity is defined as the amount of energy extracted from the public electricity grids (transmission grid and distribution grid), except the exports of energy.

\*\*\* The transmitted quantity is defined as the amount of energy physically conveyed within the transmission grid.

INVESTMENTS		
<b>182.81</b> mil lei	<b>▲ 6.4%</b> y/y	<b>Purchase of tangible and intangible assets****</b>
<b>202.15</b> mil lei	<b>▲ 116.7%</b> y/y	<b>Fixed assets recorded in the accounts (PIF)</b>

\*\*\*\* The amount corresponding to 12M 2016 does not include the unused advance payment corresponding to the new line section Porțile de Fier – (Anina) – Reșița

For ease of reading and understanding the results, some figures presented in the graph and / or tables use millions of lei as a unit of measurement and are rounded to this unit. This present disclosure convention may in some cases result in minor differences between the totals and totals obtained by summing up the component elements.



## Financial data

The summary of the financial results on December 31<sup>th</sup>, 2017 is presented in the tables below. The financial results are not audited and the extended version for the same time period is presented in the Annexes to this Report.

Separate Statement of profit and loss				
[mn RON]	2017	2016	Δ	Δ (%)
Charged energy volume - TWh	54.75	53.52	1.2	2%
<b>ALLOWED PROFIT ACTIVITIES</b>				
<b>Operational revenue</b>	<b>1,173</b>	<b>1,260</b>	<b>(86)</b>	<b>(7)%</b>
Transmission	1,055	1,146	(92)	(8)%
Functional System Services	68	68	1	1%
Other Revenues	50	46	4	10%
<b>Operational Costs</b>	<b>715</b>	<b>672</b>	<b>43</b>	<b>6%</b>
System Operation Costs	207	186	21	11%
Repairs and Maintenance	115	120	(5)	(4)%
Salaries and other Retributions	187	188	0	0%
Other Costs	206	179	26	15%
<b>EBITDA</b>	<b>458</b>	<b>587</b>	<b>(129)</b>	<b>(22)%</b>
Depreciation	312	323	(12)	(4)%
EBIT	146	264	(118)	(45)%
<b>ZERO-PROFIT ACTIVITIES</b>				
<b>Operational revenue</b>	<b>1,887</b>	<b>1,463</b>	<b>424</b>	<b>29%</b>
Technological System Services	582	649	(66)	(10)%
The Balancing Market	1,305	814	491	60%
<b>Operational Costs</b>	<b>1,966</b>	<b>1,375</b>	<b>591</b>	<b>43%</b>
Technological System Services	661	561	100	18%
The Balancing Market	1,305	814	491	60%
EBIT	(79)	88	(167)	(190)%
<b>ALL ACTIVITIES (WITH ALLOWED PROFIT AND ZERO-PROFIT)</b>				
Operational Revenue	3,060	2,723	338	12%
Operational Costs	2,681	2,048	634	31%
<b>EBITDA</b>	<b>379</b>	<b>675</b>	<b>(296)</b>	<b>(44)%</b>
Depreciation	312	323	(12)	(4)%
<b>EBIT</b>	<b>67</b>	<b>352</b>	<b>(284)</b>	<b>(81)%</b>
Financial Result	(21)	(17)	(4)	24%
<b>EBT</b>	<b>46</b>	<b>335</b>	<b>(288)</b>	<b>(86)%</b>
Corporate Tax	20	62	(42)	(68)%
<b>Net income</b>	<b>26</b>	<b>272</b>	<b>(246)</b>	<b>(90)%</b>

Separate Statement of Financial Position				
[mil RON]	December 31 <sup>st</sup> , 2017	December 31 <sup>st</sup> , 2016	Δ	Δ (%)
<b>Fixed Assets</b>				
Property, Plant and Equipment	3,044	3,190	(145)	(5)%
Intangible Assets	16	14	1	8%
Financial Assets	78	78	0	0%
Other Fixed Assets	0	10	(10)	n/a
<b>Total Fixed Assets</b>	<b>3,138</b>	<b>3,292</b>	<b>(154)</b>	<b>(5)%</b>
<b>Current Assets</b>				
Inventories	33	30	3	9%
Receivables	812	852	40	5%
Other Financial Assets	0	135	(135)	n/a
Cash and equivalents	521	934	(413)	(44)%
<b>Total Current Assets</b>	<b>1,366</b>	<b>1,951</b>	<b>(585)</b>	<b>(30)%</b>
<b>TOTAL ASSETS</b>	<b>4,504</b>	<b>5,243</b>	<b>(739)</b>	<b>(14)%</b>
<b>Shareholders' Equity</b>	<b>2,700</b>	<b>3,108</b>	<b>(408)</b>	<b>(13)%</b>
<b>Non-Current Liabilities</b>				
Loans	195	502	(307)	(61)%
Other Liabilities	480	503	(23)	(5)%
<b>Total Non-Current Liabilities</b>	<b>675</b>	<b>1,005</b>	<b>(330)</b>	<b>(33)%</b>
<b>Current Liabilities</b>				
Loans	317	138	179	129%
Other Liabilities	811	992	(180)	(18)%
<b>Total Current Liabilities</b>	<b>1,129</b>	<b>1,130</b>	<b>(1)</b>	<b>0%</b>
<b>Total Current Liabilities</b>	<b>1,804</b>	<b>2,135</b>	<b>(332)</b>	<b>(16)%</b>
<b>Shareholders' Equity and Liabilities</b>	<b>4,504</b>	<b>5,243</b>	<b>(739)</b>	<b>(14)%</b>

Separate Situation of Cash Flow				
[mn RON]	2017	2016	Δ	Δ (%)
Cash flow before the changing of working capital	453	725	(271)	(37)%
Cash flow generated in the operating activity	127	606	(479)	(79)%
Net cash from the operating activity	96	515	(419)	(81)%
Net cash from the investments activity	(40)	(199)	159	(80)%
Net cash used in the financing activity	(470)	(357)	(113)	32%
Net decrease in cash and cash equivalents	<b>(413)</b>	<b>(41)</b>	<b>(372)</b>	<b>912%</b>
<b>Cash and cash equivalents on January 1<sup>st</sup></b>	<b>934</b>	<b>974</b>	<b>(41)</b>	<b>(4)%</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>521</b>	<b>934</b>	<b>(413)</b>	<b>(44)%</b>

## OPERATIONAL RESULTS

### Charged energy volume

In 2017, the total charged energy volume for the services performed on the energy market (54.57 TWh) registered an increase of 2.30% compared to the year 2016 (the difference between the two periods being +1.2 TWh).

This trend was identified in every analysed month of 2017, mainly in the months of January and February when, due to the very low temperatures, the electric energy consumption was higher.

### Operational revenue

The total operational revenue in 2017 registered a 12.41% increase compared to the similar period of the previous year (3,060 mil lei in 2017, up from 2,723 mil lei in 2016).

The segment of **activities with allowed profit** registered a 6.84% decrease in revenues (1.173 mil lei in 2017, down from 1,260 mil lei in 2016), determined by the lowering of average tariffs for the transmission service starting with July 1<sup>st</sup>, 2016 and July 2017, given the increase in energy consumption.

The revenues from the interconnection capacity allocation registered a 7.91% decrease compared to the amount achieved in 2016 (76 mil lei in 2017, down from 82 mil lei in 2016) related to the usage level of the interconnection availability by the traders on the energy market.

The mechanism for the allocation of interconnection capacity consists in organizing annual, monthly, daily and intra-daily auctions. The annual, monthly and intra-daily auctions are explicit – only the transmission capacity is bid on, and the daily ones with Hungary are implicit – are allocated simultaneously with the energy and capacity via the coupling mechanism.

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

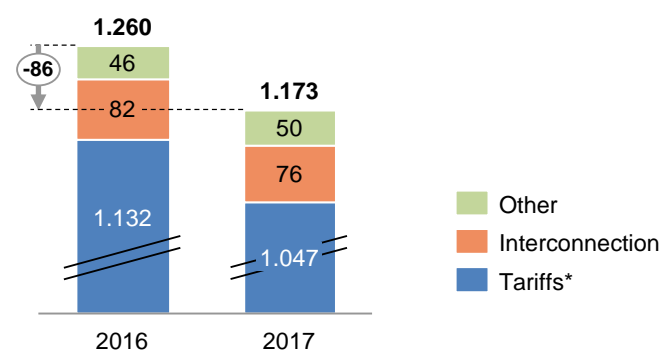
Starting with 2016, the UIOSI principle has been implemented at the border with Bulgaria, and starting with 2017 at the border with Serbia as well. According to this principle, the participants not using the capacity

won at the annual and monthly auctions, are compensated (by Transelectrica) for that capacity. The spare capacity is subsequently sold in the daily auctions. On the Hungarian border the direction is reversed, meaning that MAVIR compensates the participants for the unused capacities.

The interconnection capacity allocation market is fluctuating, the prices evolve depending on demand and the need of the participants on the energy market to purchase interconnection capacity.

Using the net incomes from the interconnection capacity allocation is achieved in accordance with Article 22 (4) of the ANRE Order no. 53 / 2013 and Article 16 (6) of the Regulation (EC) no. 714 / 2009, as a source of financing for upgrading and development of the interconnection capacity with the neighbouring systems.

Operational revenue from allowed profit activities  
(mil lei)



\* Transmission tariff, functional system services, reactive energy, unplanned exchanges DAM, ITC

The **zero-profit activities** revenues registered a 29% increase (1,887 mil lei in 2017 against 1.463 mil lei in 2016), determined mainly by the 60.26% increase of revenues on the balancing market, as a result of:

- the increase of the negative imbalance registered at the level of electricity suppliers on the balancing market, and the increase of the imbalance between the notified net contractual position and the actually delivered electricity, respectively;
- very low temperatures registered during the first quarter of 2017, which generated the registration of higher electricity consumption levels within the NPS;
- the decrease of the available electricity in the dispatchable groups as a result of:
  - Danube flow decrease;
  - the reduction of the average available power of the nuclear units, as a result of the decrease in the flow of the cooling water in the Cernavodă power plant, directly influenced by the flow of the Danube;



- the insufficient fuel stocks in the coal power plants;
- the decrease in the pressure of natural gas within the transmission network as a result of the increase in the natural gas consumption of households and industrial consumers, which limits the natural gas flow dispatched to natural gas power plants;
- the high degree of unpredictability and volatility of production from renewable sources (especially wind energy).

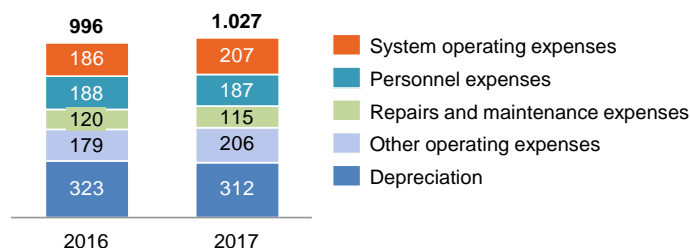
In 2017, the revenues from the performed technological services decreased with 10% compared to the same period of 2016, due to the lowering of the average tariffs for technological system services starting with July 1<sup>st</sup>, 2016 and July 1<sup>st</sup> 2017, given the energy consumption increase.

### Operational expenses

The total operational expenses (including depreciation) registered in 2017 rose by 26.24% compared to the similar period of the previous year (2,993 mil lei, up from 2,371 mil lei in the same period of 2016).

In the segment of **activities with allowed profit**, the expenses (including depreciation) registered a 3.14% increase (1027 mil lei, up from 996 mil lei in the same period of 2016).

Operational costs from allowed profit activities  
(mil lei)

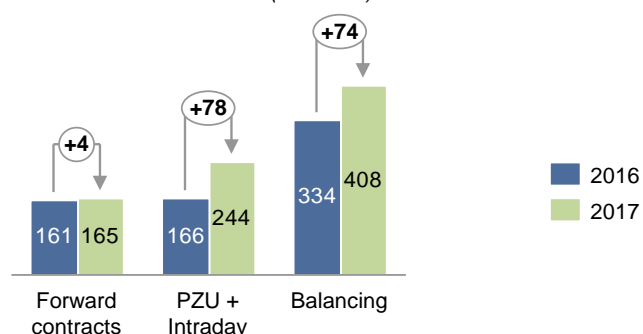


**OTC:** In 2017, these expenses have increased with the amount of 24 mil lei compared to the ones registered in 2016, given the reduction of the electricity quantity necessary to cover the OTC in PTG with ca. 4.6% (from 1,014,566 MWh in 2016, down to 968,042 MWh in 2017).

The energy crisis registered in the first quarter of 2017, determined by the very low temperatures, compared to the similar period of the year 2016, in conjunction with the extension of the unavailability of the main power production plants, have determined the sudden increase of prices on the Day–Ahead Market (DAM), Intra–Day Market (IDM) and on the Balancing Market (BM), regarding the purchase of electricity for the own technological consumption.

Thus, in 2017, the electricity for covering the OTC has been purchased on the free energy market, namely on the Centralized Market for Electricity Bilateral Contracts (CMBC), the Day–Ahead Market (DAM), the Balancing Market (BM) and the Intra–Day Market (IDM) at the average purchase price of 213.7 lei/MWh, compared to the average purchase price of 180.3 lei/MWh in 2016.

Average acquisition prices  
(lei / MWh)



**Congestions:** Congestions (network restrictions) are requests for electricity transmission beyond the technical capacity of the network, requiring corrective actions from the transmission and system operator and occur in the situation in which, in the programming of the operation or the operation in real time, the power flow between two nodes or system areas leads to the non–compliance with the safety parameters in the operation of a power system.

In 2017, the expenses on congestions have been registered in the amount of 241 mil lei, being lower than the ones registered in 2016, the latter amounting to 2,931 mil lei.

The **zero–profit activities** segment registered a 42.97% cost increase (1,966 mil lei up from 1,375 mil lei in the same period of 2016), determined by the increase of expenses on the balancing market.

In the period January – December 2017, the technological system services expenses registered a 17.88% increase compared to the similar period of 2016, generated by the purchase prices for technological system services from the competitive market which were higher than the regulated prices.

In the reported period, the Company purchased technological system services under regulated regime pursuant to the ANRE decisions and the applicable legal regulations.

According to GD no. 138 / April 8<sup>th</sup>, 2013 on the adoption of measures regarding the electricity supply security, in the timeframe April 15<sup>th</sup>, 2013 – July 1<sup>st</sup>, 2015, the Company purchased technological system

services according to the terms of the regulations issued by ANRE, from SC Complexul Energetic Hunedoara SA at an electrical power value of at least 400 MW, and from SC Complexul Energetic Oltenia SA at an electrical power value of at least 600 MW. According to the provisions of GD no. 941 / October 29<sup>th</sup>, 2014, the enforcement deadline for the provisions of GD no. 138 / 2013, for SC Complexul Energetic Hunedoara SA, was extended until December 31<sup>st</sup>, 2017.

In the timeframe January 1<sup>st</sup>, 2017 – December 31<sup>st</sup>, 2017, the purchase of the technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 906 / June 22<sup>th</sup>, 2017) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 907 / June 22<sup>th</sup>, 2017).

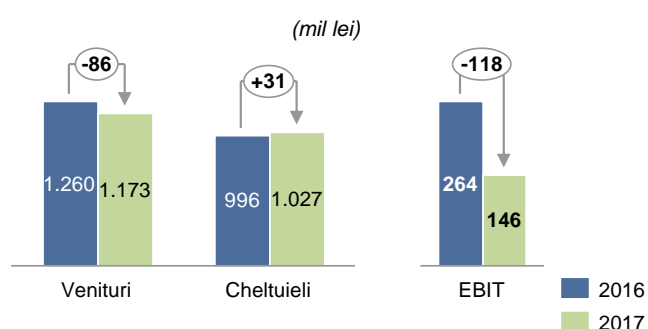
National Power Grid Company Transelectrica SA re-invoices the value of the technological system services purchased from producers, to the electricity suppliers licensed by ANRE, entities that ultimately benefit from these services.

### Operational Profit

**EBITDA** registered a 43.83% decrease compared to the similar period of the previous year (379 mil lei, down from 675 mil lei in the period of January – December 2016), this development being caused mainly by the lowering of the average tariffs approved by ANRE for the transmission system (10%) and by the lowering of the ancillary services tariffs (12%).

The **allowed profit activities** registered a positive result of 146 mil lei, lowered from 264 mil lei due to the lowering of the transmission tariffs but also due to the increase of operational expenses by 3.14%.

EBIT structure for allowed profit activities

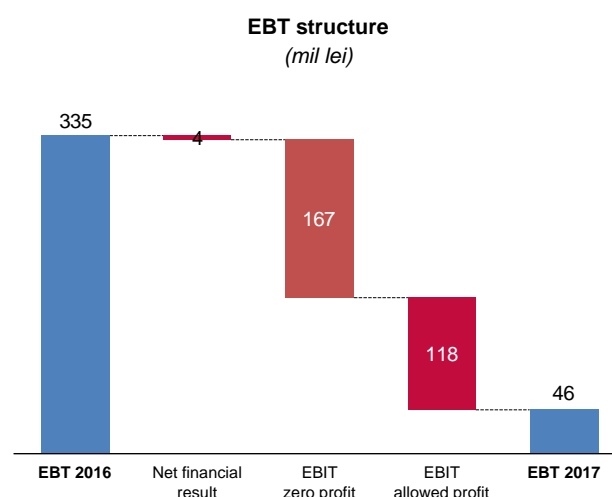


**EBIT** generated by the **zero-profit activities** registered a negative result of 79 mil lei, being influenced by the lowering of the technological system services tariffs by 12%, concurrent with the increase of technological system services expenses by 18%, compared to the same period of the previous year.

For the entire activity, **EBIT** registered a decrease of ca. 80.86% (67 mil lei, down from 352 mil in the period of January – December 2016).

### Gross Profit (EBT)

The gross profit registered a 86.19% decrease, from 335 mil lei in the period of January – December 2016, down to 46 mil lei in the period of January – December 2017. The difference between the profit registered in January – December 2017 and January – December 2016, broken down in the constitutive elements of the profit, is presented in the graph below:



### Financial Result

The net financial result registered in the period January – December 2017 was negative amounting to 21 mil lei, due to the evolution of the position related to other financial revenues influenced by the evolution of the exchange rate of the national currency to foreign currencies (euro and dollar) in which the Company concluded bank loan agreements for financing the investment programs.

Thus, compared to the net financial result recorded in the period of January – December 2016, the net loss registered in the period of 2017 rose by 4 mil lei.

Exchange rate evolution



## Net income

The net profit registered a decrease of ca. 90.29% compared to the one registered in the same period of 2016 (26 mil lei, down from 272 mil lei), this evolution being mainly determined by the decrease of tariffs for the energy transmission service and the ancillary services.

## FINANCIAL POSITION

### Fixed Assets

Fixed assets registered a 4.7% decrease at December 31<sup>st</sup>, 2017, compared to December 31<sup>st</sup>, 2016, mainly following the registration of property, plant and equipment depreciation related to the period and due to the increase of the amounts related to pending property, plant and equipment.

### Current Assets

Current assets recorded a 30% decrease at December 31<sup>st</sup>, 2017 (1,366 mil lei) compared to the value registered at December 31<sup>st</sup>, 2016 (1,951 mil lei), influenced by the 44% decrease in cash and cash equivalents, mainly due to the decrease in bank deposits with maturity lower than 90 days, constituted from current accounts (including cogeneration deposits) from 688 mil on December 31<sup>st</sup>, 2016, down to 251 mil on December 31<sup>st</sup>, 2017.

On December 31<sup>st</sup>, 2017, the Company's receivables registered a 5% increase.

Based on the component analysis, a 2.2% decrease in trade receivables is observed, as well as a 24% increase in other receivables.

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

- the rise in the level of collection of receivables;
- the decrease in the electricity quantity delivered to consumers in December 2017, compared to December 2016.

The main current customers on the electricity market are represented by: RAAN, Ciga Energy, Electrocentrale București, Electrica Furnizare, Enel Energie Muntenia, E.ON Energie România, Enel Energie, Societatea Energetică Electrica SA, Petprod SRL. The share of main customers in the total trade receivables on the energy market is ca. 54%.

The current receivables for the balancing market, amounting to 243.6 mil lei, registered a value decrease

compared to December 31<sup>st</sup>, 2016, as a result of the decrease in transactions on this market.

On December 31<sup>st</sup>, 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 26% (December 31<sup>st</sup>, 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 December 31<sup>st</sup>, 2017, mainly determined by the receivables amounting to 139.9 mil lei, 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 of 2016.

On December 31<sup>st</sup>, 2017 the Company registered receivables amounting to 168.8 mil lei, represented by the invoices issued under the bonus type support scheme for high efficiency cogeneration, out of which:

- overcompensation for the period of 2011 – 2013 in the amount of 76.7 mil lei, namely from RAAN – 63.5 mil lei and CET Govora SA – 13.2 mil lei;
- unfair bonus for 2014 amounting to 3.9 mil lei, namely from RAAN – 2.0 mil lei, CET Govora – 1.9 mil lei;
- undue bonus for 2015 in the amount of 0.6 mil lei, namely from CET Govora;
- overcompensation for 2015 in the amount of 9.7 mil lei, namely from Electrocentrale Oradea (debt taken over by Termoficare Oradea);
- overcompensation for 2016 in the amount of 56.7 mil lei, namely from Electrocentrale București;
- cogeneration contribution not collected from the suppliers of energy consumers, amounting to 21.2 mil lei, out of which: Transenergo Com – 5,9 mil lei, Pet Prod – 4,4 mil lei, Romenergy Industry – 2,7 mil lei, RAAN – 2,4 mil lei, UGM Energy – 1,8mil lei, CET Govora – 0,9 mil lei, KDF Energy – 0,9 mil lei and others.

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 București, 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 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.

National Power Grid Company 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 30<sup>th</sup>, 2015 and Addendum no. 1 / August 4<sup>th</sup>, 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 instalment 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 the Art. 17 (5) from the Order of the ANRE Chairman no. 116 / 2013 and the provisions of the Agreement, in the amount of 40.5 mil lei.

Following the suspension in court, by Civil sentence no. 3185 / November 27<sup>th</sup>, 2015, the ANRE Decision no. 738 / March 28<sup>th</sup>, 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 9<sup>th</sup>, 2016, the general insolvency proceedings were opened for CET Govora. In order to recover its receivables recorded before the insolvency proceedings, the Company followed the specific procedures provided by the Law no. 85 / 2014 on Insolvency and requested admission of its receivables, according to the law.

Given the aforementioned facts, starting with May 9<sup>th</sup>, 2016, the Company has terminated the enforcement of article 17 (5) from the Order of ANRE Chairman no. 116 / 2013 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 5<sup>th</sup>, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil Ruling no. 3185 / November 27<sup>th</sup>, 2015, has partially cancelled the contested sentence and has rejected the suspension request lodged by CET Govora, the judgement being final. Thus, starting with 05.10.2016, the effects of the ANRE Decision no. 738/28.03.2014 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.

On December 8<sup>th</sup>, 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 effective heat demand.

Thus, on December 31<sup>st</sup>, 2017, the Company does not register depreciation adjustments for the receivables related to the support scheme, the unrecovered value of these receivables being included in the cogeneration contribution.

On December 31<sup>st</sup>, 2017, other receivables amounting to 162.8 mil lei mainly include different debtors (151.4 mil lei). In the category of different debtors are recorded the advances paid to the supplier ELCOMEX - IEA SA in the amount of 31.2 mil. Lei for the execution of the projects.

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

On April 7<sup>th</sup>, 2017 the Court of Constanța, Section II Civil, by Hearing protocol no. 294 / 2017, upheld the application for a declaration of insolvency of the debtor Elcomex – IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator. Following the declaration of insolvency of Elcomex IEA SA, National Power Grid Company Transelectrica SA entered on its statement of affairs for the amount of 31,189,487 lei, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no. C163 / July

29<sup>th</sup>, 2015 and C255 / November 18<sup>th</sup>, 2015, and other expenses.

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On December 31<sup>st</sup>, 2017, the down payments amounting to 31,180,858 lei have been reclassified from “Tangible Assets” to “Receivables”.

Pricewaterhouse Coopers Business Recovery Services IPURL notifies National Power Grid Company Transelectrica on August 7<sup>th</sup>, 2017, regarding the cancellation of the agreement C 163 / July 29<sup>th</sup>, 2015 “Converting the Porțile de Fier – Reșița – Timișoara – Săcălaz – Arad to 400 kV / the 400/220/110 kV Reșița substation”.

On August 8<sup>th</sup>, 2017, the judiciary administrator Pricewaterhouse Coopers Business Recovery Services IPURL considers itself bound to note the cancellation by National Power Grid Company Transelectrica SA of the agreement no. C255 from November 18<sup>th</sup>, 2015, regarding “Connection of the Isaccea–Varna 400 kV OHL and Isaccea–Dobruja 400 kV OHL in the Medgidia Sud 400 kV OHL, Stage I”, notified by the Company with letter no. 24597 from July 5<sup>th</sup>, 2017, and at the same time the termination of the agreement on the initiative of National Power Grid Company Transelectrica SA.

On July 1<sup>st</sup>, 2017, the Company submitted an application for summons regarding the issuance of a payment order, an action subject to the case file no. 24552/3/2017 on the docket of the Bucharest Court, Section VI Civil, requesting the Court to rule a decision obliging the debtor ASITO KAPITAL SA to pay the amount of 7,058,773.36 Euro (the equivalent of 31,180,857.96 lei), representing guarantee policies for the down payments no. BR – 1500544/November 18<sup>th</sup>, 2015, and no. BR – 1500520/July 29<sup>th</sup>, 2015.

The court ordered the postponement of proceedings until November 7<sup>th</sup>, 2017, in the case file no. 24552/3/2017, on the docket of the Bucharest Court, Section VI Civil.

Given that to this date, the guaranteed amounts for the payment of down payments have not been recovered from ASITO KAPITAL SA, the Company registered on December 31<sup>st</sup>, 2017, provisions amounting to 31,180,857.96 lei.

## **Liabilities**

**Long term liabilities** registered a 33% drop, mainly following the reclassification of the current portion of long term loan agreements with reimbursement due in 2018.

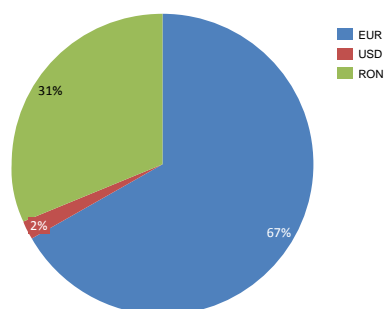
**Short term liabilities** also registered a 0.13% increase on December 31<sup>st</sup>, 2017. The factors influencing the evolution of short-term debts are:

- the decrease of commercial liabilities and other liabilities by 20%, mainly determined by:
  - the decrease from 287 mil lei (December 31<sup>st</sup>, 2016) to 205 mil lei (December 31<sup>st</sup>, 2017) in debts towards suppliers on the balancing market, determined by the settlement of current payment liabilities on the energy market on December 31<sup>st</sup>, 2016 and by the decrease in the volume of trades on the balancing market.
  - the increase in debts related to the support scheme towards the suppliers (producers) was determined by withholding from payment the cogeneration bonus and the ante-overcompensation owed to producers in the account of the Company’s receivables not collected from the same producers in the support scheme. The receivables not collected from the producers are represented by the overcompensation in the timeframe 2011 – 2013 and 2016, as well as the undue bonus for 2015 and 2015, given that the Company enforced the provisions of Art. 17 (5) of the Order no. 116 / 2013 of the ANRE Chairman.

On December 31<sup>st</sup>, 2017, payment liabilities towards suppliers (generators) are registered amounting to 111.2 mil lei (Electrocentrale București – 56.7 mil lei, RAAN – 51.2 mil lei, CET Govora SA – 3.3 mil lei) representing the cogeneration bonus and the ante-overcompensation for the years 2014 and 2015, as well as the bonus not granted for the year 2015 and the bonus not granted for the year 2016. The amounts representing the debts of the Company regarding the support scheme towards Electrocentrale București, RAAN, CET Govora have been retained from payment on the grounds of Article 17 (5) of the Order of the ANRE Chairman no. 116 / 2013, because the suppliers (producers) registered payment obligations towards the Company regarding the bonus type support scheme.

- the increase in short-term loans has been determined by the reclassification of the current portion of long-term debts with reimbursement term in 2018;
- the increase of provisions constituted for risks and expenses, mainly for the additional tax payment liabilities of the Company, respectively corporation tax and VAT, as well as ancillary tax liabilities (interest/late interest and late payment interest) related to the technological system services (TSS) invoiced by the electricity suppliers, considered not deductible following the tax inspection for a number of 123 unused invoices identified as missing (they were destroyed in the fire that broke out the night of June 26<sup>th</sup> – 27<sup>th</sup>, 2009, at the business office from Millennium Business Center from 2 – 4 Armand Calinescu Street, District 2, where the company carried out its activity);
- The interest bearing debts (long-term and short-term) are structurally presented in the following.

**Structure per currency at December 31<sup>st</sup>, 2017**



## Shareholders' Equity

The decrease in Shareholder's Equity at December 31<sup>st</sup>, 2017, compared to December 31<sup>st</sup>, 2016 (2,700 mil lei, down from 3,108 mil lei) has been mainly determined by:

- the allocation of profit for 2016 while registering the reported result of the net profit amounting to 26.4 mil lei, acquired at December 31<sup>st</sup>, 2017
- by the distribution of dividends amounting to 171 mil lei from the unallocated profit highlighted in the balance of the account "Other Revenues – Own sources of funding from profits", at the request of the Romanian State represented by the Ministry of Economy, pursuant to the AGA Decision no. 11 / October 16<sup>th</sup>, 2017. The value of shareholders' dividends distributed from the profit of 2016 according to the General Assembly Decision no. 4 / April 27<sup>th</sup>, 2017 amounts to 165.4 mil lei, and their payment is done through the Central Depository starting with June 7<sup>th</sup>, 2017.

- the recording in the account of retained earnings of the amount of 97.8 million lei retained by ANAF-DGAMC according to the Taxation Decision no. F-MC 439/30.06.2017. Additional payment obligations were retained as a result of the general fiscal inspection that targeted the period of December 2005 - December 2010. The general tax audit started on 14.12.2011 and ended on 26.06.2017, the date of the final discussion with Transelectrica SA. ANAF - DGAMC established additional tax obligations for payment by the Company, namely profit tax and VAT, as well as additional tax liabilities (interest / delay increases and delay penalties) with regard to the technological system services (STS) billed by energy suppliers, considered non-deductible as a result of the tax inspection and for unused invoices identified as missing (they were destroyed in the fire that burst out on the night of June 26-27, 2009 at the Millennium Business Center building in Armand Calinescu Street 2-4, sector 2, where the Company operates).

According to the provisions of GD no. 27 / January 12<sup>th</sup>, 2017 on the organization and functioning of the Ministry of Economy, the Company functions under the authority of the Ministry of Economy.

On March 3<sup>rd</sup>, 2017 the transfer in the amount of 43,020,309 shares was registered in the Company's Shareholder Register, from the account of the Romanian State from the administration of the Ministry of Economy, Trade and Tourism, in the account of the Romanian State in the administration of the Ministry of Economy.

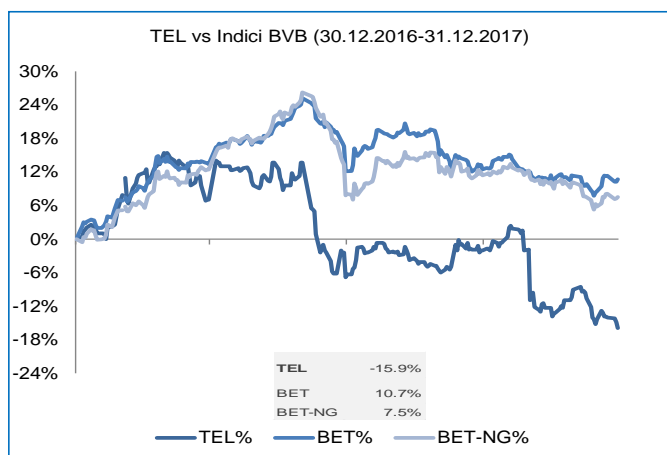
At the end of each reporting period, the subscribed and paid share capital of the Company amounted to 733,031,420 is divided into 73,303,142 ordinary shares with a nominal value of 10 lei / share and corresponds to the one registered in the Trade Register.

## EVOLUTION OF SHARES

(December 31<sup>st</sup>, 2016 to December 31<sup>st</sup>, 2017)

During the period of January – December 2017, the Transelectrica share (BSE symbol: TEL) registered a weaker evolution compared to the main index of the Bucharest Stock Exchange (BET) but also compared to the BET-NG index.

2017 debuted with a trading price of 29.30 lei / share, the market capitalization amounting to 1,780 mil lei, the share price amounting to 24.55 lei at the end of the period (December 31<sup>st</sup>, 2017). The minimum trading price was registered on December 29<sup>th</sup>, 2017 and it amounted to 24.55 lei / share, and the maximum of 33.70 lei / share was registered on March 1<sup>st</sup>, 2017.



## DIVIDENDS

The value of shareholders' dividends distributed from the profit of 2016 according to the General Assembly Decision no. 4 / April 27<sup>th</sup>, 2017 amounts to 165 mil lei, and their payment is done through the Central Depository starting with June 7<sup>th</sup>, 2017.

The dividends were calculated while observing the legislative provisions applicable to the profit distribution for majority State owned companies, based on a distribution rate of 90% and in line with the dividends distribution policy of National Power Grid Company Transelectrica SA.

Total distributed dividends: 165 mil lei  
Dividends per share: 2.257 lei  
Registration date: June 6<sup>th</sup>, 2017  
Payment date: June 28, 2017

On the request of the shareholder the Romanian State, represented by the Ministry of Economy, on the grounds of the AGA Decision no. 11 / October 11<sup>th</sup>, 2017, dividends were distributed amounting to 171 mil lei from the unallocated profit highlighted in the balance of the account "Other Revenues – Own sources of funding from profits".

Total distributed dividends: 171 mil lei  
Dividends per share: 2.33 lei  
Ex-dividend date: October 31, 2017  
Payment date: November 22, 2017



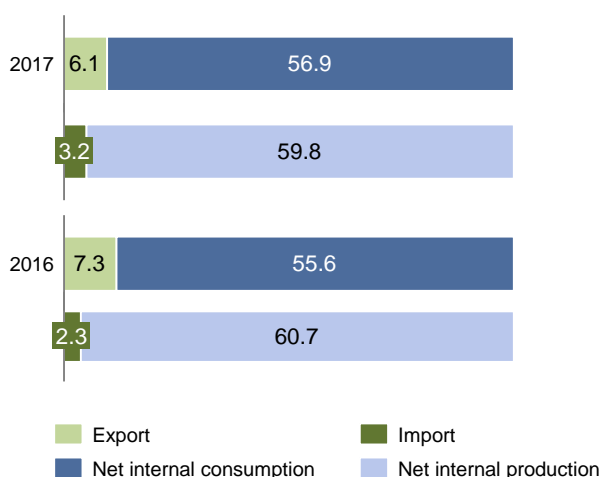
## Operational data

### THE ENERGY BALANCE OF NPS

Analysing the development of the energy balance components in the period of January – December 2017 compared to the same period of the previous year, we can see that the net internal consumption<sup>1</sup> rose by 2.3% and the net energy production decreased by 1.4%.

The physical cross-border exchanges for export decreased by 16.69% compared to the similar period of 2016, while the cross-border flows for import registered an increase of 39.26 %.

Energy Balance  
(TWh)



### GENERATION MIX

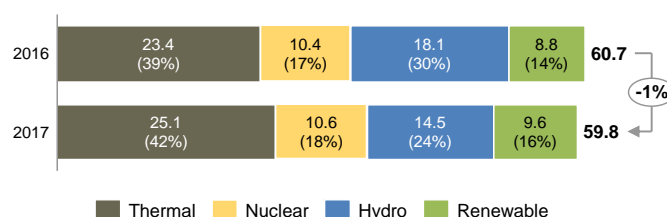
In the period of January – December 2017 compared to 2016, the generation mix structure registered an increase in the weight of the thermal component of approximately 7.3%, of the nuclear component of 1.9% and of the renewable sources generation of 9.2%.

The weight of the hydro component registered a 19.6% decrease (18.1 TWh compared to 14.5 TWh).

Analysing the weights of the net generation mix components for January – December 2017, we observe that the highest weight (42%) is represented by the

thermal component, followed by the hydro component (24%), and the energy generated from renewable and nuclear sources has a weight of approximately 18% and 16% respectively.

Net electricity generation mix  
(TWh)



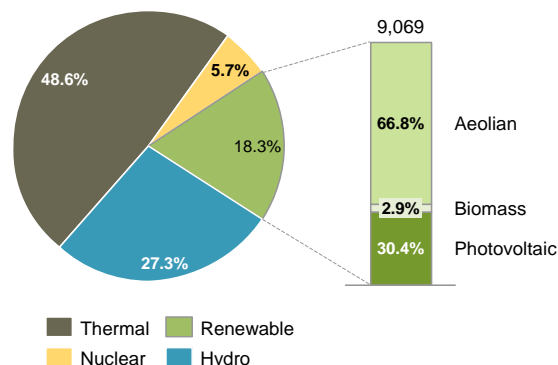
### NATIONAL PRODUCTION PARK

In 2017, the gross capacity installed in power plants registered a 0.2% increase compared to the same period of 2016.

The capacity installed in renewable energy power plants rose by approximately 0.7%, from 9,002 MW installed on December 31<sup>st</sup>, 2016, to 9,069 MW installed on December 31<sup>st</sup>, 2017.

The dynamics of the installed capacity corresponding to the period of January – December 2017 and 2016 respectively is presented further below:

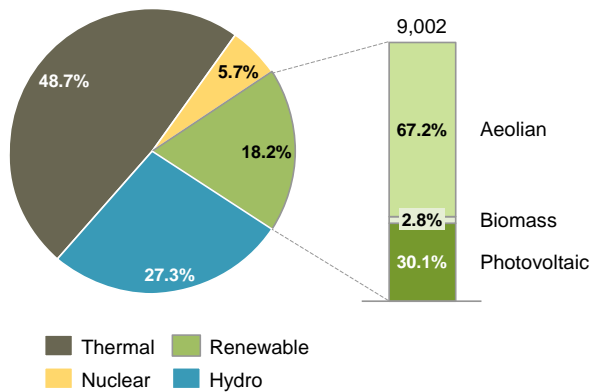
Installed power 2017 (49,481 MW, gross)



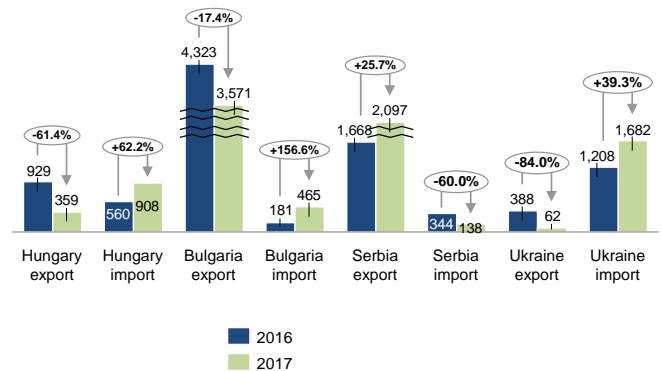
<sup>1</sup> Values do not include the consumption of auxiliary services from the power plants generating electricity; the value of the net consumption includes the losses from transmission and distribution grids, as well as the consumption of pumps from the pumping storage hydropower substations.



**Installed power 2016 (49,387 MW, gross)**



**Physical flows (GWh)**



**CROSS-BORDER FLOWS**

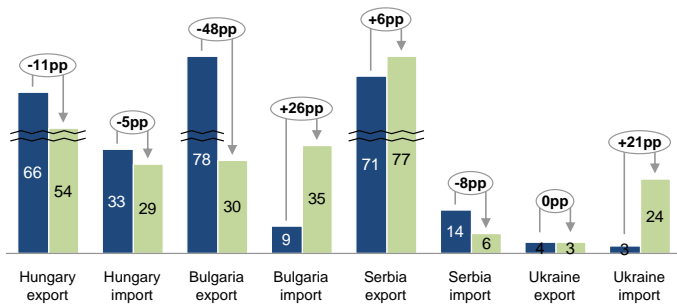
The cross-border flows have registered significant evolutions in relation to Serbia, Bulgaria and Ukraine.

Thus, compared to 2016, the physical flows for export rose on the Serbian interconnection (26.7% +429 GWh), while decreases were registered on the Hungarian, Bulgarian and Ukrainian interconnections.

Analysing the physical flows for import we observe increases on the Hungarian, Bulgarian and Ukrainian interconnections, while on the Serbian interconnection we observe a decrease of 80%.

In 2017, the degree of use of the total allocated capacity on the export interconnection lines decreased in comparison to 2016 on most destinations, registering only an increase in the relation with Serbia (+ 6pp).

**Usage rate of total allocated capacity\* (%)**



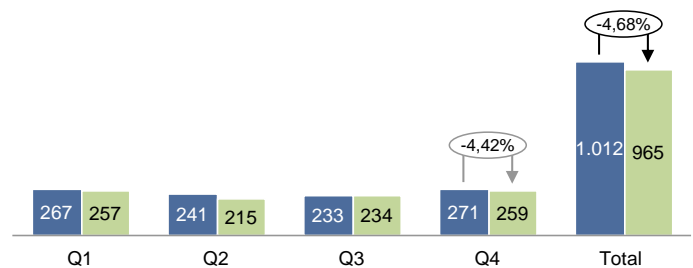
The physical flows for both import and export on each border are presented below:

**OWN TECHNOLOGICAL CONSUMPTION**

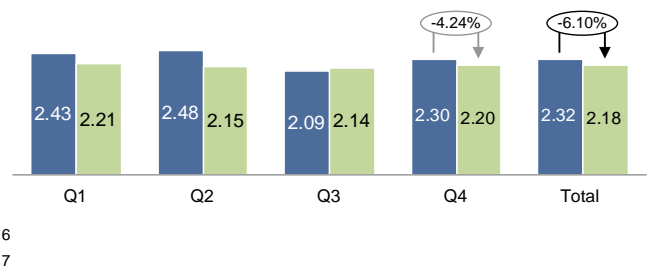
In 2017, the OTC in PTG dropped by ca. 4.68% compared to the similar period of 2016, mainly due to more favourable meteorological conditions, more advantageous generation flows and structure and lower quantities of rainfall.

Reported to the energy contour input, the losses dropped from 2.32% to 2.18%.

**OTC evolution (GWh)**



**OTC evolution (%)**



## PHYSICAL OTC REDUCTION FACTORS

In **January** 2017, the OTC in absolute value dropped compared to the month of January 2016 by ca. 5.74% due to more favorable physical flows for import / export and the more advantageous distribution of generation which led to the reduction of the energy transmission remotely from the sources. The losses percentage reported at the PTG-input energy decreased from 2.22% in 2016 to 2.05% in 2017. The net internal energy consumption was higher compared to January 2016, with 4.29%. The contour input energy also increased by 1.72% in January 2017, compared to the similar period of 2016. The weather conditions have been more favorable, the rainfall quantities considerably lower which led to the significant decrease in Corona losses.

In **February** 2017, the OTC absolute value dropped compared to the month of February 2016 by ca. 1.31% due to more favorable physical flows but also due to one day less (2016 was a leap year). The losses percentage reported at the PTG-input energy decreased from 2.49% in 2016 to 2.28% in 2017, due to the increase in the transmitted energy. The net internal energy consumption in February 2017 was higher compared to February 2016, with 3.7%. The contour input energy increased by 7.74% in February 2017, compared to the similar period of 2016. The weather conditions have been more favorable, the registered rainfall quantities was lower than in the previous year.

In **March** 2017, the OTC absolute value dropped compared to the month of March 2016 by ca. 2.03%. The weather conditions have been more favorable, the lower rainfall quantities registered this year have determined the reduction in Corona losses and the more advantageous generation structure led to the reduction of energy transmission remotely from the source. The losses percentage reported at the PTG-input energy decreased from 2.63% in 2016 to 2.31 in 2017, due to the increase in the contour input energy with 9.14% in March 2017, compared to the similar period in 2016. The net internal energy consumption in March 2017 was higher compared to March 2016, with ca. 1.1%. The weather conditions have been more favorable, the registered rainfall quantities was lower than in the previous year.

**In the first quarter of 2017**, the OTC in PTG dropped by ca. 3.77% compared to the similar period of 2016, mainly due to more favorable meteorological conditions, more advantageous generation flows and structure and lower quantities of rainfall. Reported to the energy contour input, the losses dropped from 2.43% to 2.21%.

In **April** 2017, the OTC absolute value dropped compared to the month of April 2016 by ca. 6.62% due to the more advantageous distribution of generation which led to the reduction of the energy transmission remotely

from the sources. The losses percentage reported at the PTG-input energy decreased from 2.32% in 2016 to 2.05% in 2017, due to the increase in the transmitted energy and the reduction of the absolute value CPT. The net internal energy consumption was higher compared to March 2016, with 3.83%. The contour input energy also increased by 5.93% in April 2017, compared to the similar period of 2016. The weather conditions in terms of rainfall have been similar to April 2016.

In **May** 2017, the OTC absolute value dropped compared to the month of May 2016 by ca. 8.68%, especially due to the more favorable weather conditions which led to the reduction in Corona losses. The losses percentage reported at the PTG-input energy decreased from 2.59% in 2016 to 2.29% in 2017, due to the decrease in the absolute value CPT and the increase in transmitted energy. The net internal energy consumption in May 2017 was higher compared to May 2016, with ca. 3.27%. The contour input energy increased by 3.44% in May 2017, compared to the similar period of 2016. The weather conditions have been more favorable, the registered rainfall quantities were lower than in the previous year.

In **June** 2017, the OTC absolute value dropped compared to the month of June 2016 by ca. 16.05%, due to the more advantageous physical flows and the more favorable weather conditions which led to the reduction in Corona losses. The losses percentage reported at the PTG-input energy decreased from 2.53% in 2016 to 2.13% in 2017, due to the decrease in the absolute value CPT in June 2017 compared to the similar period of 2016. The contour input energy decreased by 0.06% in June 2017, compared to the similar period of 2016. The weather conditions have been much more favorable, the registered rainfall quantities were lower than in the previous period.

**In the second quarter of 2017**, the OTC in PTG dropped by ca. 10.6% compared to the similar period of 2016, especially due to more favorable meteorological conditions with smaller quantities of rainfall, which led to the decrease in Corona losses, due to the more advantageous physical flows and generation structure. Reported to the energy contour input, the losses dropped from 2.48% to 2.15%.

In **July** 2017, the OTC absolute value dropped compared to the month of July 2016 by ca. 3.94% due to the decrease in transmitted energy and the more advantageous distribution of physical flows on borders, which led to the reduction of the energy transmission remotely from the sources. The losses percentage reported at the PTG-input energy increased from 1.94% in 2016 to 2.02% in 2017, due to the decrease in the absolute value CPT and the increase in transmitted energy. The net internal energy consumption was higher

compared to July 2016, with 0.99%. The contour input energy decreased by 7.6% in July 2017, compared to the similar period of 2016. The weather conditions in terms of rainfall have been more disadvantageous compared to July 2016, generating higher Corona losses.

In **August** 2017, the OTC absolute value dropped compared to the month of August 2016 by ca. 1.99%, due to the decrease in transmitted energy, the more advantageous physical flows and the more favorable weather conditions which led to the reduction in Corona losses. The losses percentage reported at the PTG-input energy decreased from 2.19% in 2016 to 2.18% in 2017, due to the decrease in the absolute value CPT. Even though the net internal energy consumption was by ca. 8.22% higher in August 2017 compared to August 2016, the balance amounted to 47 GWh in imports compared to 644 GWh in exports, which led to a decrease of the contour input energy by 1.62% in August 2017 compared to the similar period in 2016. The weather conditions have been more favorable, the registered rainfall quantities were lower than in the previous year.

In **September** 2017, the OTC absolute value rose compared to the month of September 2016 by ca. 6.38%, due to an increase in the transmitted energy and a more disadvantageous distribution of production. The losses percentage reported at the PTG-input energy increased from 2.13% in 2016 to 2.21% in 2017, due to the decrease in the absolute value CPT. The contour input energy increased by 2.67% in September 2017, compared to the similar period of 2016. The weather conditions have been more unfavorable on the N-V half, with fewer lines, and more favorable in the S-E half, with more transmission lines, determining lower Corona losses.

In the 3<sup>rd</sup> quarter of 2017, the CPT from PTG rose insignificantly by ca. 0.1% compared to the similar period in 2016. The positive evolution of the physical flows on the borders during the entire period and the more favorable weather conditions from July and August have compensated the impact of the disadvantageous production structure from the three months and the disadvantageous weather conditions from July. Reported to the energy contour input, the losses increased from 2.09% to 2.14%.

In **October** 2017, the absolute value of OTC dropped compared to the month of October 2016 by ca. 2.22% due to the more advantageous distribution of physical flows on the Northern and Western borders, which led to the reduction of the energy transmission remotely from the sources. The losses percentage reported at the PTG-input energy decreased from 2.34% in 2016 to 2.27% in 2017, due to the decrease in the absolute value of OTC and the increase in transmitted energy. The net

internal energy consumption was higher compared to October 2016, with 0.48%. The contour input energy increased by 0.8% in October 2017, compared to the similar period of 2016. The weather conditions in terms of rainfall have been more advantageous compared to October 2016, generating lower Corona losses.

In **November** 2017, the absolute value of OTC dropped compared to the month of November 2016 by ca. 12.27% due to the more advantageous distribution of physical flows on borders, which led to the reduction of the energy transmission remotely from the sources. The losses percentage reported at the PTG-input energy decreased from 2.48% in 2016 to 2.07% in 2017, due to the decrease in the absolute value of OTC and the increase in transmitted energy. Even though the net internal energy consumption was higher by ca. 0.6% in November 2017 compared to November 2016, the balance amounted to 125 GWh in exports compared to 559 GWh in exports (given the increase in the physical imports with ca. 248 GWh and the reduction of physical exports with ca. 188 GWh), which led to an increase of the contour input energy by 2.77% in November 2017 compared to the similar period in 2016. The weather conditions in terms of rainfall have been similar compared to the ones from the previous year.

In **December** 2017, the OTC absolute value rose compared to the month of December 2016 by ca. 1.45%, due to disadvantageous weather conditions, characterized by heavier rainfalls, which generated heavier Corona losses. The losses percentage reported at the PTG-input energy increased from 2.15% in 2016 to 2.27% in 2017, due to the increase in the absolute value of OTC and the decrease in transmitted energy. Even though the net internal energy consumption was smaller by ca. 2.1%, the balance amounted to 522 GWh in exports compared to 722 GWh in exports (given the increase in the physical imports with ca. 53 GWh and the reduction of physical exports with ca. 184 GWh), which led to a decrease of the contour input energy by 3.73% in December 2017 compared to the similar period in 2016. The weather conditions were disadvantageous generating heavier Corona losses.

In the 4<sup>th</sup> quarter of 2017, the OTC from PTG decreased by ca. 4.4% compared to the similar period in 2016. The positive evolution of the physical flows on the borders during the entire period and the more favourable weather conditions from October have compensated the impact of the disadvantageous production structure and the disadvantageous weather conditions from December. Reported to the energy contour input, the losses dropped from 2.3% to 2.2%, following a reduction of the absolute value of OTC.



## Investments

### FIXED ASSETS RECORDED IN THE ACCOUNTS

The value of fixed assets registered in the accounts of 2017 amounted to 202.1 mil lei.

In 2017, the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the commissioning of the investment objectives, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 84.9 mil lei;
- Technical upgrade of the Câmpia Turzii 220;110/20 kV substation – 39.6 mil lei;
- Replacing AT and TRAF0 in electrical substations – Stage II – 19.8 mil lei;
- Integrated security system in electrical substations, stage IV: the Roşiori 400/220 kV substation, the Oradea Sud 400/110/20 kV substation, the Paroşeni 220 kV substation, the Iernut 400/220/110/6 kV substation and the Gutinaş 400/220/110 kV substation – 17.3 mil lei;
- Urgent repair of the damage to the Iernut – Gădălin 400 kV OHL and the Iernut – Baia Mare 3 220kV OHL – 8.3 mil lei;
- Upgrading the Suceava 110 kV and 20 kV electrical substations – 6.6 mil lei;
- Upgrading the Tihău 220/110 kV substation – primary equipment – 6.4 mil lei;
- Performing the optical fiber communication between the Bradu 400/220/110 kV substation and the Stupărei 220/110 kV station – 2.7 mil lei;
- Motor vehicles 2017 – 2.6 mil lei;
- Connecting the 147 MW Valea Dacilor WPP to the PTG – 2.4 mil lei;
- Replacing the 110/20 kV, 10MVA TRAF0 in the Fântânele 110/20 kV substation – 1.1 mil lei;
- Upgrading the SCADA system for the Constanţa Nord 400/110/10 kV substation– 0.98 mil lei;
- Creating the coexistence conditions between the Iernut Ungheni 400(220) kV OHL in the 71–72 opening and the Braşov–Târgu Mureş–Cluj–Oradea–Ungheni–Ogra highway, km 4+500 km 14+605 – 0,88 mil lei;
- Warehouse for power transformers for system reserves and isolated passages in the security stock of National Power Grid Company "Transelectrica" – SA in the Sibiu Sud 400 kV

substation – 0.85 mil lei;

- Upgrading the control building from the Roman Nord 400/110/20 kV substation – 0.68 mil lei;
- Special intervention beams, Universally Anchored Portal type for the 220 – 400 kV voltage, including prefabricated foundations – 0.64 mil lei;
- Movement and protection of the high voltage electrical installations – 220 kV OHL on the route of the Sebeş–Turda highway – 4<sup>th</sup> lot, the Cluj Floreşti – Alba Iulia 220 kV OHL (178 – 179 crossing) – 0.62 mil lei;
- Replacing the connectors from electrical substations – 0.57 mil lei;

### PURCHASES OF ASSETS

The purchases of tangible and intangible assets<sup>2</sup> in 2017 amounted to 182.8 mil lei, compared to the same period of 2016 when the purchases amounted to 171.8 mil lei.

The balance of tangible assets in progress on December 31<sup>st</sup>, 2017 is represented by the projects in progress, the most significant being listed below:

- 400 kV OHL interconnecting Reşiţa (Romania) – Pancevo (Serbia) – 98.3 mil lei;
- PTG connection of the Iveşti 300 MW WPP, Fălcu 1 88 MW WPP and Fălcu 2 18 MW WPP via the new Banca (400)/220/110 kV substation – 46.9 mil lei;
- Technical upgrade of the Bradu 400/220/110/20 kV substation – 36.8 mil lei;
- Converting the Porţile de Fier – Reşiţa – Timişoara – Săcălaz – Arad axis to the 400 kV voltage – stage I – Porţile de Fier – (Anina) – Reşiţa 400kV OHL s.c. – 20.8 mil lei;
- Extending the services providing business continuity and recovery after disasters – 14.4 mil lei;
- Upgrading the Cluj Est 400/110/10 kV electric station – 13.3 mil lei;
- Replacing AT and TRAF0 in electrical substations – Stage II – 11.7 mil lei;

<sup>2</sup> Includes the variations of pending asset suppliers on December 31<sup>st</sup>, 2017

- Connecting the Isaccea – Varna 400 kV OHL and the Isaccea – Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation – 10.8 mil lei;
- Integrated security system in electric substations, stage IV – 10.3 mil lei;
- Upgrading the Suceava 110 kV and 20 kV substation – 9.7 mil lei;
- Cernavodă – Stâlpu 400 kV OHL d.c. and connection in Gura Ialomiței – 8.4 mil lei;
- Converting the Porțile de Fier – Reșița – Timișoara – Săcălaz – Arad axis to the 400 kV voltage – stage I – Reșița 400/220/110 kV substation – 6.6 mil lei;
- 400 kV HVDC Link (submarine cable Romania – Turkey) – 5.9 mil lei;
- 400 kV OHL Gădălin – Suceava, including the NPS interconnection – 5.7 mil lei;
- Upgrading the command-control-protection system of the Sărdănești 220/110/20 kV substation – 5.7 mil lei;
- Suceava – Bălți 400 kV OHL, for the part of the project on Romanian territory – 4.4 mil lei;
- Technical upgrade of the Hășdat 220/110 kV substation – 4.4 mil lei;
- Reparation of the failure of the 110-120 terminals of the Bucharest Sud – Ghizdaru 220 kV OHL – 4.3 mil lei;
- Gutinaș – Smârdan 400 kV OHL d.c. – 3.2 mil lei;
- Extending the control system with new functions and IT registration of access in the objectives of National Power Grid Company Transelectrica SA – 3.2 mil lei;
- Converting of the Porțile de Fier – Reșița – Timișoara – Săcălaz – Arad axis to the 400 kV voltage, stage II – Reșița – Timișoara – Săcălaz 400 kV OHL d.c. (Timișoara 220/110kV substation) – 3.2 mil lei;
- Connecting the 136 MW WPP Platonești, Ialomița county, to the PTG through constructing a 110 kV cell in the Gura Ialomiței 400/110 kV substation – 2.9 mil lei;
- Assembling the optic fiber and upgrading the system of distance protections on the 400 kV OHL d.c. Țânțăreni – Turceni and the 400 kV OHL s.c. Urechești – Rovinari – 2.8 mil lei;
- Upgrading the Arefu 220/110/20 kV substation – 2.8 mil lei;
- Integrated security system in electric substations, stage III – 2.8 mil lei;
- Upgrading the Răureni 220/110/20 kV substation – 2.8 mil lei;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation – the construction part – 2.7 mil lei;
- By-passing the Cetate 1 & 2 110 kV OHL in the proximity of the Ostrovul Mare 110/20/6 kV substation – 2.6 mil lei;
- Connecting the 99 MW Dumești WPP and the 30 MW Românești WPP, Iași county, to the PTG, through constructing a 110 kV cell in the FAI 220/110 kV substation – 2.5 mil lei;
- Security solution for implementing the security measures related to classified information – 2 mil lei;
- Upgrading the 110/6 kV substation from the Peștiș 20/110/6 kV substation – 1.8 mil lei;
- Consolidation, upgrading and extension of the National Power Grid Company “Transelectrica” headquarters – 1.6 mil lei;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 kV substation – 1,4 mil lei;
- Technical upgrade of the Isaccea 400 kV substation – Stage I – replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1.2 mil lei;
- Integrated security system at the new Banca (400) 220/110 kV substation – 1.1 mil lei;
- Performing the optical fiber communication between the Pitești Sud substation and the remote control and installation supervision center of ST Pitești (SF) – 1.1 mil lei;
- Upgrading the SCADA system for the Constanța Nord substation – 0.98 mil lei;
- Upgrading the Dumbrava 220/110 kV substation – 0.93 mil lei;
- Connecting the Stupina 400 kV substation to the PTG and connecting the Isaccea – Varna 400 kV OHL – 0.87 mil lei;
- Replacing the connectors from electrical substations – 0.79 mil lei;
- Ostrovu Mare 220 kV OHL double circuit – PTG – 0.75 mil lei;
- Oradea – Beckescsaba 400 kV OHL – 0.74 mil lei;

## **CONTRACTUAL MATTERS**

The most important investment contracts concluded in 2017 are:

- Technical upgrade of the Domnești 400/110/20 kV substation – 111.8 mil lei;
- Technical upgrade of the Ungheni 400/110/20 kV substation – 42,5 mil lei;
- Upgrading the Bacău Sud and Roman Nord 110 kV substations associated to the Moldova 400 kV axis – 38 mil lei.



## Significant events

### JANUARY – DECEMBER 2017 EVENTS

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

Pursuant to the publication in the Official Journal of the Government Decision no. 10 / 13.01.2017, C.N.T.E.E Transelectrica S.A., as Transmission System Operator, is mandated to apply the technical and commercial safeguard measures according to Article 6 (3) from the *Regulation on safeguard measures in crisis situations occurred during the operation of the National Power System*, approved by ANRE Order no. 142 / 2014.

- **“SEE CCR TSOs proposal for design of Long Term Transmission Rights”**

On February 24<sup>th</sup>, 2017, National Power Grid Company Transelectrica SA invites the stakeholders and participants to the Romanian energy market to send their observations regarding the online consultation for the SEE CCR TSOs proposal for design of Long Term Transmission Rights in accordance with Article 31 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a Guideline on Forward Capacity Allocation.

- **Report on the environmental impact for project Gădălin – Suceava 400 kV Overhead Line**

The Company announced the interested public regarding the submission of the report on the environmental impact, which integrates the conclusions of the appropriate assessment study for project GĂDĂLIN–SUCEAVA 400 kV Overhead Line, including the interconnection to the National Power System which is proposed to be placed in Cluj, Bistrița-Năsăud and Suceava counties.

- **Credit rating Fitch Ratings**

Starting with January 2017, the Company concluded an agreement with the international credit rating Company Fitch Ratings.

On July 5<sup>th</sup>, 2017, Fitch grants the Company the BBB rating, representing a stabile perspective, recognizing the Company’s efforts to reach operational excellence

and the responsible approach towards the business environment in which it operates.

On October 11<sup>th</sup>, 2017, Fitch maintains the BBB rating for the Company, a stable outlook, an assessment one step above the country's rating (BBB–/ stable outlook)

- **New ANRE tariff regulations**

ANRE published the Order no. 48/2017 on 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 regulated price for reactive electrical energy, used by the Company.

The Order was published in the Official Gazette 489/28.06.2017

Thus, the regulated tariffs concerning the electricity transmission service and system services effective from July 1<sup>st</sup>, 2017, have been modified and are presented as follows:

Service	Tariff effective in the period July 1 <sup>st</sup> , 2016 - June 30 <sup>th</sup> , 2017	Tariff effective in the period July 1 <sup>st</sup> , 2017 - June 30 <sup>th</sup> , 2018	Difference
	Lei/MWh	Lei/MWh	%
I. Electricity Transmission	18.70	16.86	(9.8)%
II. Functional System Services	1.30	1.11	(14.5)%
III. Technological System Services	11.58	9.39	(18.9)

The newly approved tariffs have been calculated in accordance with the applicable methodologies

On December 20<sup>th</sup>, 2017, on the grounds of ANRE Order no. 122, the Company published the statement on the approval of the average tariff for the transmission service. Pursuant to the document published by ANRE, the increase of the regulated system services tariff (from 9.39 lei/MWh to 12.06 lei/MWh) leads to an increase of ca. 0.6% in the final price of energy delivered to the household consumers

- **Incident in the Gorj county area**

On July 12<sup>th</sup>, 2017, at 8.34 am, in the conditions of severe weather conditions (severe storm), several equipment and groups have switched off: Two lines

from the power transmission grid from the Gorj county area and one auto-transformer have switched off at National Power Grid Company Transelectrica SA, as well as two groups from the Rovinari and Turceni power plants from the Oltenia Energy Complex, with an installed capacity of 1320 MW (at the time the incident occurred, they were functioning at a capacity of 1176 MW).

The energy deficit created in the NPS by the loss of the 1176 MW has been taken over by the electric group within Hidroelectrica, CE Hunedoara, Romgaz Iernut, Electrocentrale București, Bepco Brașov, Gas Energy Ecotherm Făgăraș and Electro Energy Sud Giurgiu, so that the safety of the National Power System has not been affected and the above-mentioned incident caused no interruptions in delivering electricity to consumers.

Out of the three pieces of equipment switched off in the power transmission grid, two were placed into service right after the incident and one is going to be investigated. At this moment the National Power Grid Company Transelectrica SA specialists work on replacing the damaged equipment into service.

- **Finishing the upgrade works of the Tihău 220/110kV substation**

The Tihău 220/110kV substation represents a basic node in the western area of the National Power System (NPS), with the main functions of by-passing the necessary power to the deficit area of North Transilvania which presently has a limited size of the transmission grid destined to ensure the local power and to deliver NPS electricity to consumers from Sălaj, Baia Mare and Satu Mare.

The upgrade works comprised improving the operation conditions and reducing the operation and maintenance expenses, by adding efficient equipment and adopting constructive solutions, in line with current technologies.

The upgrade was self-financed.

- **The European Commission's approval for financing the "Crossbow" project in which Transelectrica is a partner, together with the Romanian Energy Center**

The "CROSSBOW" project was selected by the European Commission to be financed within the Horizon 2020 Program, as part of the H2020-LCE-2016-2017 call (COMPETITIVE LOW-CARBON ENERGY, topic LCE-04-2017 - Demonstration of system integration with smart transmission grid and storage technologies with increasing share of renewables).

Transelectrica and the Romanian Energy Center are partners within this project, under the coordination of the Spanish Group ETRA Investigación Y Desarrollo SA, along with 8 Transmission and System Operators (TSOs) from Central and South-Eastern Europe: ADMIE (GR), ESO (BG), EMS (RS), NOS BiH (BA), HOPS (HR), ELES (SI), CGES (ME), MEPSO (MK) and other partners from a consortium of 24 professional energy and telecommunication organizations from 13 European countries.

As the Transmission and System Operator from Romania, Transelectrica will grant access to project relevant data, ensure the technological capacities for tests and validations on site and will also offer energy expertise.

- **CEEP Energy Summit**

On September 20<sup>th</sup>, 2017, the Chief Executive Director of National Power Grid Company Transelectrica SA, Ms. Corina Popescu, attended the sixth edition of the CEEP Energy Summit, organized in Tallinn (Estonia).

The CEEP Summit, a key element between the Central European energy sector and the European Commission, reunited a distinct and renowned group of decision makers in order to discuss the opportunities and challenges in the EU energy policy sector following the implementation of the two legislative packages: The renewable energy security package and the "Clean Energy for All Europeans" package.

Together with the CEEP members – 11 leading companies in the energy and intense energy sector – and other guests from other countries, Ms. Corina Popescu engaged in discussions with Mr. Maroš Šefčovič, the European Commission Vice-President for Energy Union.

- **CNR – CIGRE partnership**

Transelectrica partnered with the CIGRE Romanian National Committee for the organization of the fourth edition of the International Conference on Condition Monitoring, Diagnosis and Maintenance 2017 - CMDM 2017 - CMDM 2017 that took place on September 25<sup>th</sup> -27<sup>th</sup>, 2017, at Radisson Blu Hotel Bucharest, event organized with the support of CIGRE Paris.

The conference was opened by Ms. Corina Popescu, Chief Executive Office, Directorate Chairman of National Power Grid Company Transelectrica SA, and by international guests from the energy sector, such as: Hiroki Ito (Japan), Terry Krieg (Australia), Hugh Cunningham (Ireland), Claudio Marchetti (Italy), Gerhard Wieserner (Germany).

- **50<sup>th</sup> anniversary of the Gutinaş transformer station**

On September 26<sup>th</sup>, 2017, the National Power Grid Company Transelectrica SA celebrated the 50<sup>th</sup> anniversary of the Gutinaş 400/220/110 kV transformer station from Bacău county, one of the most important stations in Romania that ensures the electricity delivery to the entire North-Eastern part of the country.

- **The Extraordinary General Assembly of Shareholders approves the draft Decision no. 10**

On September 26<sup>th</sup>, 2017, the Extraordinary General Assembly of Shareholders of the National Power Grid Company “Transelectrica”-SA following the address with no. 4314 / 05.09.2017 received from the Ministry of Economy - the Department for Privatization and Administration of State Holdings regarding the request for the completion of the 3<sup>rd</sup> item of the agenda regarding the modification of the Company's Articles of Association, approves the draft Decision with the following agenda:

1. Increasing, in principle, the share capital of CNTE “Transelectrica” S.A. with the in-kind contribution of 17 land plots for which the Company has obtained certificates authenticating the ownership rights;
2. Adding a new object of activity with the NACE code – 3320 “Installation of industrial machinery and equipment”;
3. Substantiating the amendments made to the Articles of Association of The National Power Grid Company “Transelectrica”-SA.

- **Change in the shareholder structure**

According to the notice issued by the Bucharest Stock Exchange, Transelectrica's shareholder structure is modified by the purchase from Dedeman S.R.L. of a 0.68% shareholding, thus reaching a 5.56% shareholding.

- **Signing the Bilateral Agreement**

On October 3<sup>rd</sup>, 2017, the Company signed the Bilateral Agreement with the transmission and system operator from Bulgaria, Electroenergien Sistemem Operator – ESO – EAD, regarding the assurance of emergency cross-border energy supply for maintaining the operational safety of power systems from Romania and Bulgaria.

- **Change in the gross dividend**

On October 16<sup>th</sup>, 2017, The Ordinary General Assembly of Shareholders of Transelectrica issued Decision no. 11 approving (point 1) – the gross dividend per share to the value of 2.33 lei/share, payable to the shareholders registered at the registration date of November 1<sup>st</sup>, 2017, ex-date October 31<sup>st</sup>, 2017, upon request of the Romanian State, represented by the Ministry of Economy, distributed from the non-distributed profits at the end of the financial year 2016 – the balance of the account “Other Revenues – Own sources of funding from profits” on December 31<sup>st</sup>, 2016, constituted on the grounds of GD no. 64/2001 for financing the investments from own sources of funding, amounting to a total of 171 mil lei. By decision no. 11 of October 16<sup>th</sup>, 2017 (point 3) – November 22<sup>nd</sup>, 2017, was established as the “date of payment” of dividends.

- **Carrying out the interconnection project between Romania and Serbia**

On October 25<sup>th</sup>, 2017 occurred the passing over the Serbian border of the Reșița (Romania) – Pancevo (Serbia) 400 kV Overhead Line. Between October 25<sup>th</sup> and October 28<sup>th</sup>, 2017, the connection occurs between the Romanian (Reșița – the RO-SE border) electrical line portion and the Serbian one (Pancevo – the RO-SE border). This is one of the final phases in carrying out the interconnection project between Romania and Serbia.

- **Incidents in the Fundeni 220/110/10 kV substation**

Saturday on October 21<sup>st</sup>, 2017, at 4:32 o'clock, a damage occurred to the Fundeni 220/110/10 kV substation, generated by the deterioration of a high voltage piece of equipment (110 kV current reducer); as a result, the Bucharest neighbourhoods Obor and Fundeni, as well as a part of the Otopeni, Afumați and Fundeni localities have suffered a lack of electricity for a timeframe between 3 to 20 minutes.

The intervention teams of Transelectrica have responded in the shortest amount of time possible, so that all consumers affected by the Fundeni substation incident have been completely reconnected by 4:52 o'clock at the latest.

Another incident occurred on November 1<sup>st</sup>, 2017, 16:40 o'clock, caused by the malfunction of several elements in the actuation device of the 220 kV connector and the corresponding secondary circuits of the auto-transformer; as a result, several neighbourhoods from the eastern and northern part of the capital have been affected. The damage has been



repaired around 0:00 o'clock and the normal connection scheme has been re-established.

- **Interconnection project between Romania and Serbia**

On October 25<sup>th</sup>, 2017 occurred the passing over the Serbian border of the Reșița (Romania) – Pancevo (Serbia) 400 kV Overhead Line. Between October 25<sup>th</sup> and October 28<sup>th</sup>, 2017, the connection occurs between the Romanian (Reșița – the RO-SE border) electrical line portion and the Serbian one (Pancevo – the RO-SE border). This is one of the final phases in carrying out the interconnection project between Romania and Serbia.

- **Amending the Articles of Association**

On November 9<sup>th</sup>, 2017, by Decision no. 14, the Company's Extraordinary General Assembly of Shareholders approves the amendments of the Articles of Association.

- **Inauguration of the Câmpia Turzii 220/110/20 kV electrical substation**

On November 16<sup>th</sup>, 2017, the Company inaugurated the Câmpia Turzii 220/110/20 kV electrical substation (Cluj County), refurbished with an investment of ca. 42 mil .lei from the Company's own funds. The works started in 2014 and consisted of the full refurbishment of the substation, including the primary and secondary equipment, the SCADA system, the remote control from the National and Territorial Power Dispatcher, the assembly of a 220/110 kV autotransformer and the assembly of a second 110/20 kV transformer. The refurbished substation has been commissioned on October 26<sup>th</sup>, 2017.

- **The European Commission publishes the list of 6 Projects of common interest regarding the energy infrastructure**

At the end of the week 27.10 – 01.11.2017, the European Commission published the third list of projects of common interest (PCI) regarding the energy infrastructure, containing 6 major investment objectives carried out by the Company as Romania's transmission system operator. The total value of the six investment projects amounts to ca. one billion lei and they are included in the "Black Sea Corridor" and "Mid Continental East Corridor" clusters. All of these projects contribute to the construction of the 400 kV national ring, an objective included in the programme for government which leads to an increase of the operational security of the PTG and to reaching an economical operational regime of the PTG. At the same time, we mention that the government of Romania manifested its support towards the acceleration of Transelectrica's investments by

promoting several Decisions on starting the expropriation procedures for the Cernavodă – Stâlpu 400 kV d.c. overhead line and the connection to the Gura Ialomiței substation, and the Gutinaș-Smârdan 400 overhead line (OHL).

Transelectrica submitted a financing request for the Cernavodă-Stâlpu 400 kV overhead line (OHL)

- **The PICASSO Project**

On December 8<sup>th</sup>, 2017, the Company published the notification regarding the first consultancy phase for the PICASSO Project (Platform for the International Coordination of Automated Frequency Restoration and Stable System Operation). The public consultation comprises two phases, the first phase being concluded at the end of 2017 and the second phase being scheduled to take place in mid-way through 2018.

- **The appointment of SC Deloitte SRL as auditor**

On December 14<sup>th</sup>, 2017, the Ordinary General Assembly of Shareholders approves, by Decision no. 15, the appointment of SC Deloitte Audit as financial auditor of the Company, concluding an agreement for "Financial audit services for 2017 – 2019" for a period of 3 years (36 months).

- **ANRE sanction**

On December 20<sup>th</sup>, 2017, ANRE issued the record of findings and penalties no. 86370 sanctioning Transelectrica, pursuant to Art. 93 (1) (4) of the Electricity and Natural Gas Act no. 123/2012, for not complying with the availability conditions associated with the license no. 161/2000 for carrying out the electricity transmission service, the system service and the management of the balancing market, granted by Decision no. 865 of December 22<sup>nd</sup>, 2000 of the ANRE Chairman.

The Company paid the fine and analysed the motivation presented in the record in order to exercise the right to challenge in court the potential irregularities present in the record.

- **Changes in the Company management**

#### **Directorate**

On September 16<sup>th</sup>, 2017, the following mandates of the Company's Directorate members have expired: Corina – Georgeta Popescu, Constantin Văduva, Mircea – Toma Modran and Octavian Lohan.

Pursuant to Art. 64(1) from GEO 109/2011 on the corporate governance of public companies, as subsequently amended and supplemented, the Board of Supervisors appointed the following persons as provisional Directorate members:

- Georgeta – Corina POPESCU
- Mircea – Toma MODRAN
- Dan – Valeriu ARDELEAN
- Florin – Cristian TĂTARU
- Andreea Georgiana FLOREA

The mandate of the Directorate members has a duration of 4 months starting with September 17<sup>th</sup>, 2017, with the possibility of extension for good cause for 2 further months. However, the duration of the mandate shall not exceed the date when the selection procedure of the National Power Grid Company Transelectrica SA Directorate members is finished, pursuant to Art. 64 of GEO 109/2011, if the procedure will be finished in this period.

At the same time, the Board of Supervisors appoints Ms. Georgeta – Corina POPESCU as Directorate Chairman, alternatively called Chief Executive Officer – CEO.

### **Board of Supervisors**

The members of the Board of Supervisors are appointed by the General Assembly of Shareholders, observing the legal provisions applicable to companies admitted to trading, and are selected according to the provisions of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public companies.

Each Board of Supervisors member must formally declare their independency, as well as on every occasion their status is changed, showing the reasons for which they consider themselves independent.

Thus, the decision no. 5 of May 30<sup>th</sup>, 2017 of the Extraordinary General Assembly of Shareholders approves the structure of the provisional members of the Board of Supervisors of National Power Grid Company Transelectrica SA for a four-months term of office, as follows:

- Cristian-Eugen RADU – Supervisory Board Chairman
- Marius-Iulian CARABULEA – Member of the Board of Supervisors
- Ștefan-Valeriu IVAN – Member of the Board of Supervisors
- Iulius-Dan PLAVETI – Member of the Board of Supervisors
- Corneliu SOROCEANU – Member of the Board of Supervisors
- Beatrice AMBRO – Member of the Board of Supervisors
- Bogdan BOBORA – Member of the Board of Supervisors

On May 31<sup>st</sup>, 2017, the members of the Supervisory Board appointed Mr. Cristian-Eugen RADU to the position of Chairman of the Supervisory Board.

On September 12<sup>th</sup>, 2017, the Company Directorate approves the addition to the Extraordinary General Assembly of Shareholders convening notice from September 26<sup>th</sup> / 27<sup>th</sup>, 2017, on the proposal of the Ministry of Economy as legal representative of the Romanian State, via letter no. 4314 / September 5<sup>th</sup>, 2017, with the following agenda: extending the mandates of the provisional Board of Supervisors members with a two-months period, triggering the selection procedure of the Board of Supervisors members of the Company, amending the Articles of Association.

Decision no. 12 of November 9<sup>th</sup>, 2017 of the Extraordinary General Assembly of Shareholders of National Power Grid Company Transelectrica SA approves the structure of the provisional members of the Board of Supervisors of National Power Grid Company Transelectrica SA for a four-months term of office, starting with November 30<sup>th</sup>, 2017, as follows:

- Cristian-Eugen RADU – Member of the Board of Supervisors
- Marius-Iulian CARABULEA – Member of the Board of Supervisors
- Bogdan BOBORA – Member of the Board of Supervisors
- Beatrice AMBRO – Member of the Board of Supervisors
- Fănel MIHALCEA – Member of the Board of Supervisors
- Faustin-Doru SCÎNTEI – Member of the Board of Supervisors
- Alin-Sorin MITRICĂ – Member of the Board of Supervisors

Starting with November 20<sup>th</sup>, 2017, Mr. Ștefan-Valeriu IVAN renounced his mandate as provisional member of the Supervisory Board of Transelectrica.

Following the Decision no. 12 of the Extraordinary General Assembly of Shareholders from November 9<sup>th</sup>, 2017, during the meeting held on December 11<sup>th</sup>, 2017, the Board of Supervisors decided, by Decisions no. 86 and 88 of 2017, to appoint Mr. Cristian-Eugen RADU as Chairman of the Board of Supervisors and to approve the following structure of the consultative committees within the Board of Supervisors:

- Nomination and remuneration committee
  1. Cristian-Eugen RADU – Chairman
  2. Marius-Iulian CARABULEA
  3. Fănel MIHALCEA
  4. Bogdan BOBORA
  5. Alin-Sorin MITRICĂ

6. Faustin-Doru SCÎNTEI
- Audit Committee
    1. Beatrice AMBRO – Chairman
    2. Bogdan BOBORA
    3. Marius-Iulian CARABULEA
    4. Alin-Sorin MITRICĂ
    5. Faustin-Doru SCÎNTEI
  - Energy Security Committee
    1. Fănel MIHALCEA – Chairman
    2. Cristian-Eugen RADU
    3. Marius-Iulian CARABULEA

The mandate of the current Board of Supervisors is carried out over a period of four months, starting with November 30<sup>th</sup>, 2017 up until March 30<sup>th</sup>, 2018.

## SUBSEQUENT EVENTS

### • The Decision of the General Ordinary Assembly of Shareholders

The General Ordinary Assembly of Shareholders of National Power Grid Company “Transelectrica” SA, held on January 10<sup>th</sup>, 2018, 10:00 o'clock, takes the following decisions:

- recalls Ms. Beatrice AMBRO from the position of provisional member of the Supervisory Board of National Power Grid Company “Transelectrica” SA,
- appoints Mr. Constantin DUMITRU as provisional member of the Board of Supervisors of National Power Grid Company “Transelectrica” S.A, with a mandate duration until March 30<sup>th</sup>, 2018,
- mandates Ms. Denisa Voinea, the representative of the Ministry of Economy in the General Assembly of Associates, to sign the mandate contract of Mr. Constantin DUMITRU, provisional member of the Board of Supervisors,
- approves the establishing the date of January 29<sup>th</sup>, 2018 for the registration of shareholders to be impacted by the Ordinary General Assembly of Shareholders.

### • Acceptance of the mandate as provisional member of the Board of Supervisors

According to the Ordinary General Assembly of Shareholders of National Power Grid Company Transelectrica SA from January 9<sup>th</sup>, 2018, the appointment of Mr. Constantin DUMITRU in the position of provisional member of the Board of Supervisors of National Power Grid Company “Transelectrica” SA became effective as of January 15<sup>th</sup>, 2018

### • Extending the Directorate mandate

At the meeting of January 15<sup>th</sup>, 2018, the Board of Supervisors decided the extension of the mandate contract of the provisional members of the Directorate, namely up to March 16<sup>th</sup>, 2018.

### • Public consultation regarding the Implementation Framework for the European platform for the imbalance netting process

Pursuant to Article 22 (1) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing, within six months since the entry into force of the regulation, all TSOs draft a proposal regarding the implementation framework for the European platform for the imbalance netting process. The work group finalized the Implementation Framework document and initiated the public consultation which was launched on ENTSO-E webpage on January 15<sup>th</sup>, 2018 at 12:00 o'clock, and will close on March 15<sup>th</sup>, 2018 at 12:00 o'clock.

Given the above, Transelectrica invited the parties interested in participating at this public consultation to read the documents for public consultation published on the Company's webpage.

### • The second consultation stage of the TERRE project (Trans European Replacement Reserve)

Article 19 of the “Guideline on Electricity Balancing” sets forth the deadline of *two* years since the entry into force of the Balancing Code, to use the **replacement reserves** in a common market at European level.

In order to comply with the provisions set forth by GL EB, entered into force on December 18<sup>th</sup>, 2017, the pilot project TERRE is currently under development at ENTSO-E level, which was approved by ENTSO-E and declared the initial project.

The main objective of this project is to create and operate a platform capable to collect the offers for the replacement reserve (RR) submitted by the participating TSOs and to carry out an optimized allocation of the RR needed to cover the necessary balancing electricity of each TSO. 6 TSOs are involved in the project as members: RTE (France), Terna (Italy), REN (Portugal), RED (Spain), Swisseggrid (Switzerland), National Grid (Great Britain) and 4 TSOs currently with the status of observers: PSE (Poland), Transelectrica (Romania), CEPS (Czech Republic), MAVIR (Hungary).

At the date of drafting this report, the project already went through two stages of public consultation.

The documents drafted for the two consultation phases, containing details about the TERRE project as well as the opinions and observations of interested

parties regarding this project, can be found on ENTSO-E's webpage, and Transelectrica published the link where they can be accessed, together with the appointment of a Company representative responsible with further clarifications pertaining to this subject.

- **Transelectrica receives European funds for constructing the Cernavodă – Stâlpu high voltage line**

On January 25<sup>th</sup>, 2018, the European Commission approved a grant amounting to 28 mil. euro for constructing the Cernavodă – Stâlpu 400 kV electrical line. This is the first of the six projects of common interest of Transelectrica, included on the list revised in November of last year, to receive financing from the European Commission.

The Cernavodă – Stâlpu overhead electrical line shall contribute to the increase in interconnection capacity between Romania and Bulgaria and to the integration of wind energy in the Dobrogea area.

- **Maintenance services contract for the metering system**

Transelectrica attributed the company Teletrans, via open auction, the maintenance services contract for the local metering system of the Company's own electrical substations.

This maintenance contract shall ensure the operation without interruptions of the metering system both centrally and locally, so that it is able to provide supply services which are necessary in order to measure electricity in the metered points and to fulfil the role for which it was constructed.



## Miscellaneous

### SHAREHOLDERS' STRUCTURE

On the date of issuing this report, the shareholder's structure is the following:

Shareholder name	No. of shares
The Romanian State	43,020,309
Dedeman SRL	4,192,363
Other shareholders - legal persons	20,689,339
Other shareholders - natural persons	5,401,131
<b>Total</b>	<b>73,303,142</b>

### TARIFFS

The tariffs approved by ANRE (Order no. 48 / 2017) are presented in the table below:

Index	Tariff	u.m.	Approved value July 1 <sup>st</sup> , 2016 - June 30 <sup>th</sup> , 2017	Approved value July 1 <sup>st</sup> , 2017 - June 30 <sup>th</sup> , 2018	Difference %
<b>A</b>	Electricity transmission	lei/MWh	18.70	<b>16.86</b>	-9.8%
<b>B</b>	Functional system service	lei/MWh	1.30	<b>1.11</b>	-14.6%
<b>C</b>	Technological system service	lei/MWh	11.58	<b>9.39</b>	-18.9%
	Charged quantity	TWh	52.0	<b>54.0</b>	-

#### Electricity transmission service

The tariff decrease (-9.8%) is explained mainly by two factors:

1. The negative ex-post corrections - the negative corrections applied for the compensation of differences between the forecasted values used to calculate the tariff in the previous tariff years and the actual recorded values (final corrections for the year July 1<sup>st</sup>,

### DIRECTORATE MEMBERSHIP

On the date of issuing this report, the Directorate structure is the following:

Georgeta-Corina POPESCU	Chairman of the Directorate
Andreea - Georgiana FLOREA	Directorate Member
Dan - Valeriu ARDELEAN	Directorate Member
Florin Cristian TĂTARU	Directorate Member
Mircea-Toma MODRAN	Directorate Member

2015 - June 30<sup>th</sup>, 2016, preliminary corrections for the year July 1<sup>st</sup>, 2016 - June 30<sup>th</sup>, 2017).

The contribution of ex-post corrections to the decrease in the new approved tariff compared to the previous tariff is of -5.6%.

The most important elements of the ex-post corrections applied in calculating the new approved tariff are: (i) the price of energy purchased to cover the own technological consumption, (ii) the inflation index, (iii) using a part of the incomes resulted from interconnection capacity allocation as a complementary source for the regulated tariff in order to cover the regulated costs, (iv) the increase of energy consumption above the level forecasted by ANRE when planning the tariff;

2. The electricity volume chargeable at the extraction point was increased from 52 TWh to 54 TWh. The contribution of the change in the chargeable volume to the decrease in the new approved tariff compared to the previous tariff is of -3.7%.

In addition to the negative corrections there have been other factors which contributed to the establishment of the approved tariff value, entered into force on July 1<sup>st</sup>, 2017, compared to the tariff in force until June 30<sup>th</sup>, 2017:

- The forecasted inflation used for the calculation of the new approved tariff was higher than the forecasted inflation used for the calculation of the previous tariff (the inflation index used for the calculation of the new tariff is higher than the inflation index used for the calculation of the tariff for the previous tariff year). The contribution of the inflation index difference to the modification in the new approved tariff compared to the previous tariff is of +0.37%;
- The basic annual income calculated as a sum of the annual regulated costs, set forth based on the cost forecast for a period of 5 years, approved by ANRE for the regulation period July 1<sup>st</sup>, 2014 - June 30<sup>th</sup>, 2019, is slightly higher than the basic annual income corresponding to the previous tariff year. The linearization of the annual income series within the regulation period led to a redistribution of the annual income within the period, while keeping constant the total income value for 5 years, the income development from one year to the next representing a decreasing negative slope. The cumulated contribution of the two elements presented within this paragraph to the modification in the new approved tariff compared to the previous tariff is of -0.92%.

### **Functional system service**

The tariff decrease (-14.6%) was determined by:

- The negative ex-post correction included in the new tariff is higher than the negative correction applied to the tariff for the previous year. The contribution of the ex-post correction to the decrease in the new approved tariff compared to the previous tariff is of -3.8%;
- The annual forecast for costs included in the new approved tariff is lower than the annual forecast for costs included in the tariff for the previous year. The contribution of the reduction of the annual forecast for costs to the decrease in the new approved tariff compared to the tariff in force is of -6.9%;
- The electricity volume chargeable at the extraction point was increased from 52 TWh to 54 TWh. The contribution of the change in the chargeable volume to the decrease in the new approved tariff compared to the previous tariff is of -3.8%.

### **Technological system service**

The tariff decrease (-18.9%) was determined by:

- The negative ex-post correction included in the new approved tariff, set forth according to the

methodology applicable for partial compensation (amounting to 80%) of the estimated profit to be accumulated until June 30<sup>th</sup>, 2017. The profit was mainly obtained due to the significant reduction of unit purchasing prices via auctions for ancillary services compared to the unit prices forecasted by ANRE. In order to mitigate the impact on the regulated tariff, on Transelectrica's request, a new staging program was set forth for the application of the correction on the grounds of which 50% of the total correction was applied in the new approved tariff, following that the remaining 50% to be applied to the subsequent tariff revisions. The contribution of the ex-post correction to the decrease in the new approved tariff compared to the tariff in force is of -4.6%;

- The annual forecast for costs included in the new tariff for purchasing ancillary services in the tariff year July 1<sup>st</sup>, 2017 - June 30<sup>th</sup>, 2018 is lower than the forecast for costs included in the tariff year July 1<sup>st</sup>, 2016 - June 30<sup>th</sup>, 2017. The reduction of the forecast for costs was determined by the reduction of purchasing prices via auctions for ancillary services in the current tariff year compared to the prices forecasted by ANRE, especially in the second half of 2016. The contribution of the reduction of the annual forecast for costs to the decrease in the new approved tariff compared to the previous tariff is of -10.6%;
- The electricity volume chargeable at the extraction point was increased from 52 TWh to 54 TWh. The contribution of the change in the chargeable volume to the decrease in the new approved tariff compared to the tariff in force is of -3.7%.

The regulatory framework for the ancillary services activity (ANRE Order no. 45/2017) includes tariff adjustment mechanisms after a minimum of six months from the approval of the tariff, created to ensure the full and timely recovery of the costs incurred by the Company in purchasing such services.

### **Event to report after December 31<sup>th</sup>, 2017**

Transelectrica requested ANRE to revise the regulated tariff for ancillary services starting with January 1<sup>st</sup>, 2018, given the following:

- the major discrepancy between the real prices paid by Transelectrica when purchasing ancillary services under competitive regime and the prices forecasted by ANRE at the

moment of approval of the tariff for the 4<sup>th</sup> tariff year;

- the level of the financial loss occurred from the ancillary services activity estimated for the period July – December 2017 (the first half of the 4<sup>th</sup> tariff year) is above the negative correction level taken into consideration by ANRE when approving the tariff for the 4<sup>th</sup> tariff year;
- supplementing the reserve quantity in the immediately subsequent period (January – March 2018) according to the winter programme in the energy sector, approved by GD no. 760/2017, additional and unanticipated costs will be generated for the TSO at the moment of approval of the tariff enforced since July 1<sup>st</sup>, 2017.

Taking into consideration that the difference between the revenue and the justified costs of Transelectrica has exceeded 5%, ANRE established a new tariff for the first semester of 2018 (the second semester of the

4<sup>th</sup> tariff year) amounting to 12.06 lei/MWh, pursuant to the provisions of Art. 18 of the ANRE Order no. 45/2017 and on the grounds of the price estimations for the acquisition of ancillary services under competitive regime and the hypothesis according to which the electricity quantity shall rise (by 2% compared to the electricity quantity estimated for the second semester of 2017); this new price is meant to correct the discrepancy between the TSO's costs and revenues, discrepancy which rose by 25% compared to the tariff enforced in the first semester of 2017, amounting to 9.39 lei/MWh.

## LITIGATIONS

The most significant litigations involving the Company are presented below:

### ▪ RAAN

Pending with the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, the file no. 3616 / 101 / 2014 was recorded, involving the "claims in the amount of 1,090,831.70", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities - RAAN.

The amount requested for payment represents penalties calculated by RAAN for the due bonus on the support draft and withheld from the payment by the Company as Administrator of the support draft that applied the provisions of the art.17.para. 5 of the ANRE President's Order no. 116 /2013.

Against the decision no. 843 / May 11<sup>th</sup>, 2015 of the Court of Appeal Craiova - Section II Civil, pronounced in the public hearing from May 11<sup>th</sup>, 2015, in file no. 3616 / 101 / 2014, against the decision no. 127 / 2014 of the Mehedinti Court- Section II Civil, Administrative and Fiscal Litigation, pronounced in the public hearing from October 10<sup>th</sup>, 2014, in file no. 3616 / 101 / 2014, as well as against the Decision no. 1 / 2015 of the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, pronounced in the public hearing from January 9<sup>th</sup>, 2015, in file no. 3616 / 101 / 2014, National Power Grid CompanyTranselectrica SA filed an appeal asking the court to allow the appeal as it was filed and to reverse the judgment and sentences under appeal and to refer the case to the trial court in

the territorial jurisdiction for judgement, and to declare the compliance with the requirements of Articles 1616 and 1617 of the Civil Code, reason for which it is being required to declare the intervention of the compensation of mutual debts, and their redemption up to the amount of the smallest of them, namely the total amount requested by the plaintiff in the application for summons, ordering the appellee - plaintiff to pay the expenses occurred with this appeal.

The appeal was registered on the docket of the High Court of Cassation and Justice who, during the appeal filtering proceedings, decided the following: grants the appeal in principle declared by the appellant - defendant National Power Grid CompanyTranselectrica SA against decision no. 843 / 2015 from November 5<sup>th</sup>, 2015, pronounced by the Court of Appeal Craiova - Section II Civil. Sets the hearing for solving the appeal on March 21<sup>st</sup>, 2017. On March 21<sup>st</sup>, 2017, the High Court of Cassation and Justice admitted the appeal declared by defendant National Power Grid Company "Transelectrica" SA against decision no. 843/2015 of November 5<sup>th</sup>, 2015, pronounced by the Court of Appeal Craiova – Section II Civil; the decision is invalidated and the case is forwarded for retrial to the Bucharest Court in file no. 28460/3/2017. The hearing was set on: December 5<sup>th</sup>, 2017.

In the case file No 9089/101/2013/ a152 Transelectrica SA has been registered in the table of debtor RAAN with the amount of 11,264,777.30 lei under the category of receivables resulting from the continuation of the debtor's activity, the amount requested by our company being equal to 89,360,986.06 lei, our amount of 78,096,208.76 lei not being registered in the preliminary table because "this is not listed as owed in RAAN's accounting records." Moreover, the liquidator considered that the request regarding the registration in the table of the amount equal to 78,096,208.76 lei is tardily filed, being related to the timeframe 2011 – 2013, reason for which the receivable declaration should have been filed at the moment of commencement of the insolvency proceedings, namely on September 18<sup>th</sup>, 2013. Objection was filed against the Table. The Mehedinti Court approved the evidence with the audit expertise. The hearing was set January 25<sup>th</sup>, 2018.

#### ■ COURT OF AUDITORS

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 20<sup>th</sup>, 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 29<sup>th</sup>, 2016, the court postponed the case so that the technical expertise report may be finished.

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

At the hearing from March 22<sup>th</sup>, 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.

At the hearing from May 24<sup>h</sup>, 2017, the Court noted the absence of technical expert's response to the objections filed against the technical expertise report (second part) drafted in the case.

Ruling term: February 21<sup>st</sup>, 2018

The National Power Grid Company Transelectrica S.A has filed a number of 8 appeals against the measures ordered by the Romanian Court of Accounts (RCC)

through the Decision no. 8 / 27.06.2017, requesting their cancellation, as well as against the Conclusion no. 77 / 03.08.2017, registered at the Company's registry under no. 29117 / 08.08.2017, respectively the Control Report no.1929 / 26.05.2017, as follows:

The file no. 6578/2/2017 aims at canceling the findings in point 9 as well as the measure set out in point II.11;

The file no. 6577/2/2017 aims to annul the findings in paragraph 13 and the measure set out in II.13;

The file no. 6576/2/2017 aims at canceling the findings in paragraphs 7.1, 7.2. and 8 and the measure set out in point II.10;

The file no. 6574/2/2017 aims at canceling the findings in point 5.2 and the measure set out in point II.8;

The file no. 6581/2/2017 aims to annul the findings of point 6 as well as the measure set out in point II.9;

The file no. 6580/2/2017 aims to annul the findings in point 10 and the measure set out in point II.12;

The file no. 6582/2/2017 aims at canceling the findings in point 11 and the measure set out in I.5;

-By Decision no.274 / 2017, the Court of Appeal Bucharest ordered the following: "Dismisses the application as unfounded. On appeal, within 5 days from the communication, on the end of the application for suspension of execution, which is filed with the Bucharest Court of Appeal. On appeal, within 15 days of the communication, on the end of the application for annulment of the act, which is filed with the Bucharest Court of Appeal. Published today, January 29, 2018, under the terms of art. 402 rap. to art. 396 par. 2 of the Civil Procedure Code, by making the solution available through the Court Registry. ", according to information on the court portal.

The file no. 6583/2/2017 aims at canceling the findings in point 5.1 as well as the measure set out in point II.7;

-By decision no. 5207/2017, the Court of Appeal Bucharest ordered the following: "Dismisses the plea of inadmissibility raised by the defendant as unfounded. Dismisses the application for annulment as unfounded. The application is dismissed as unfounded. Dismisses the applicant's claim that the defendant be ordered to pay the costs as unfounded. With a right of appeal within 5 days of the communication of the solution to the request for suspension, within 15 days of the communication of the solution to the merits of the case, the appeal to be lodged with the Court by Bucharest Appeal - Section VIII administrative and fiscal contentious. Pronounced



in a public hearing today, 28.12.2017. ", According to information on the court portal..

Note: The litigations are filed at the Bucharest Court of Appeal and are in various stages of solving.

#### ▪ ANRE

National Power Grid Company Transelectrica SA filed a complaint against the Order of the ANRE Chairman no. 51 / June 26<sup>th</sup>, 2014, registered at ANRE under no. 47714 / August 4<sup>th</sup>, 2014, and an appeal before the Court of Appeal Bucharest, subject of the file no. 4921 / 2 / 2014, requesting either the amendment of the aforementioned 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 26<sup>th</sup>, 2014, the ANRE Order no. 51 was issued, published in the Official Journal under no. 474 / June 27<sup>th</sup>, 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<sup>1</sup>) 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 0.432 shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138.4 mil. lei<sup>3</sup>,

<sup>1</sup> RRR - Regulated Rate on Return is presented in the technical literature as WACC – Weighted Average Cost of Capital – translated as Weighted Average Cost of Capital, the equation of both indicators being similar:  $RRR = WACC = CCP + Kp/(1 - T) + CCI \times Ki$

<sup>2</sup> The value that caused the decrease of the RRR to 7.7%

<sup>3</sup> Calculated value compared to the RRR of 8.52%

having a significant impact on the financial interests of the company.

At the hearing from February 9<sup>th</sup>, 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 25<sup>th</sup>, 2016, April 22<sup>nd</sup>, 2016, June 10<sup>th</sup>, 2016 and March 3<sup>rd</sup>, 2017, the court postponed the judgement of the cause because of the missing technical expertise report.

At the hearing from November 28<sup>th</sup>, 2017, taking into consideration the request of the technical expert to grant a final hearing, the Court admits the request and will issue a short hearing term. The Court decides contacting the expert by means of written notification and telephone with the same mention to come to the Court personally at the hearing from December 12<sup>th</sup>, 2017, 10:30 o'clock, with the requested response and in order to present the proof according to which he was unable to come to the hearing, so that one can evaluate the necessity to issue a judicial fine.

At the hearing from December 12<sup>th</sup>, 2017, the Court postpones the case and sets a new term on January 30<sup>th</sup>, 2018.

#### ▪ OPCOM

On November 24<sup>th</sup>, 2014, the Operator of the Electricity and Natural Gas Market - OPCOM SA sued the Company in order to force it to pay the amount of 582,086.31 euro (2,585,161.72 lei at the National Bank of Romania exchange rate from November 24<sup>th</sup>, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro, the request being subject of file no. 40814/3/2014.

Previously, the General Assembly of Shareholders of the subsidiary OPCOM SA decided at the meeting from June 10<sup>th</sup>, 2014, upon full payment of the fine amounting to 1,031,000 euro imposed by the Directorate General for Competition – European Commission for breaching of Article 102 of the Treaty on the Functioning of the European Union, according to the Decision no. AT 39984 in the antitrust case.

Also, OPCOM SA requested the court to order the Company to pay the amount of 84,867.67 lei as lawful interest related to the period between June 11<sup>th</sup>, 2014 and November 24<sup>th</sup>, 2014.

The action filed by OPCOM SA is subject of the file no. 40814 / 3 / 2014 on the docket of the Bucharest Court, Section VI Civil, involving claims, litigation with professionals matter, and the hearing date was set on June 29<sup>th</sup>, 2015. The Company filed counterstatement for the application for summons, claiming exceptions and substantive defences regarding the unfoundedness and unlawfulness of the action.

At the hearing from June 24<sup>th</sup>, 2015, the court admitted the request for summons filed by the plaintiff the Electricity and Gas Market Operator – OPCOM S.A. in contradiction with the defendant the National Company of Electricity Transmission Transelectrica S.A. and ordered to the defendant to pay the plaintiff the sum of 582.086,31 Euros, representing the sum paid by the plaintiff instead of the defendant in the amount of 1.031.000 euro applied by Decision of The European Commission on 5<sup>th</sup> March 2014 in the case AT.39984, and of the statutory rate, on the amount of 582.086,31 Euros, calculated from 11<sup>th</sup> June 2014 until the date of the actual payment. The court also orders the defendant to pay the plaintiff the amount of 37,828.08 lei, as legal expenses, with right of appeal within 30 days from notification. Against the sentence no. 4275/2015, pronounced in the aforementioned file, Transelectrica SA formulated an appeal, which was registered before Bucharest Court of Appeal.

The settlement of the Appeal Court: 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 0.016 mil lei, representing legal stamp duty. The appeal was set within 30 days from notification and it was pronounced in the public hearing of October 10<sup>th</sup>, 2016. Document: Decision 1517 / 2016 October 10<sup>th</sup>, 2016.

OPCOM S.A. appealed. The case is in the filtering proceedings. The hearing is to be set.

#### ▪ **ROMENERGY INDUSTRY SRL**

On June 30<sup>th</sup>, 2016, the general insolvency proceedings are opened for the entire amount of 16,122 mil lei.

The hearing is set on January 29<sup>th</sup>, 2018 for continuing the bankruptcy proceedings by capitalizing the assets and recovering the receivables. The liquidator will draft and submit to the case the monthly activity reports set forth by paragraph 1 of Article 21 of Law no. 85/2006, on the 15<sup>th</sup> of each month for the previous month. They will submit the summary report every 120 days, foreseen in the final part of paragraph 1 of Article 21 of

Law no. 85/2006, for the verification term, 5 days before the term.

#### ▪ **ASITO KAPITAL SRL**

The object of the casefile no. 24552/3/2017 is "authorization for payment – claims", the litigation value being 31 mil lei.

At the hearing from November 7<sup>th</sup>, 2017, after deliberation, the Bucharest Court ruled the following solution in short:

- admits the request

- orders Asito Kapital to pay, within 20 days since the notification of the decision, the amount of 2,237,750.83 euro (the equivalent of 9,945 mil lei at the exchange rate of 4.4458 euro) representing the down payment which was not reimbursed but guaranteed via letter of guarantee for the payment of the down payment no. BR-1500544/18.11/2015,

-orders the debtor to pay, within 20 days since the notification of the decision, of the amount of 4,821,022.53 euro (the equivalent of 21.233 mil lei at the exchange rate of 4.4041 lei/euro) representing the down payment which was not reimbursed but guaranteed via letter of guarantee for the payment of the down payment no. BR-1500520/29.07.2015;

-orders the debtor to pay the amount of 200 lei in court costs within 20 days of the delivery of this judgment. With the right for application for annulment within 10 days of communication. Document: Decision 4067/2017 - 07.11.2017.

Until the date of preparation of these financial statements, Decision 4067/2017 - 07.11.2017 was not drafted and communicated to be enforced.

#### ▪ **FF WIND ENERGY INTERNATIONAL SRL**

File no. 47332/3/2017 which is pending before the Bucharest Court of Law - Civil Section VI, through which the Company FF Wind Energy International SRL requests in contradiction with CNTEE Transelectrica SA:

- annulment of the unilateral declaration of termination of the transmission network connection contract no. 85 / 14.03.2011 issued on 02.03.2016 under the number 8295,

- ordering our Company to pay the amount of 32,777,167.37 lei, the loss resulting from the termination of the contract and the payment of the sum of 45,000,000 euros, representing the amount of the devaluation of the Company FF Wind Energy International SRL by preventing the achievement of its purpose.

Stage file: In the preliminary procedure for communication action and drafting the counterstatement.

#### ▪ **OTHERS**

The company is involved in significant litigations in which it has the quality of plaintiff, especially for debt recovery (e.g. Eco Energy SRL , Petprod SRL, Total Electric Oltenia SA , Arcelormittal Galati SA, Regia Autonoma de Activitati Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL, Elsaco Energy, Elcomex). The Company registered adjustments for value losses regarding customers and other claims at issue as well as for bankrupt customers.

At the same time, the Company is also involved in litigations in which it acts as defendant, against former Directorate and Board of Supervisors members, regarding the mandate agreements concluded between the Company and themselves.

### **CONTINGENT LIABILITIES**

#### ▪ **ANAF**

At Transelectrica SA's headquarters the general tax inspection took place, which regarded the period between December 2005 and December 2010. The general tax inspection commenced on December 14<sup>th</sup>, 2011 and ended on June 26<sup>th</sup>, 2017, the date of the final discussion with Transelectrica SA.

ANAF – DGAMC set forth additional tax payment liabilities to the Company, respectively corporation tax and VAT, as well as ancillary tax liabilities (interest/late interest and late payment interest) related to the ancillary services (STS) invoiced by the electricity suppliers, considered not deductible following the tax inspection.

According to the Notice of assessment no. F-MC 439/30.06.2017, amounting to a total of 99 mil lei, ANAF – DGAMC set forth additional tax payment liabilities to the Company, amounting to 35 mil lei, as well as ancillary tax liabilities (interest/late interest and late payment interest), amounting to 64 mil lei.

ANAF's Tax inspection report mainly records the following additional payment liabilities:

Corporation tax amounting to 14 plus accessories, owed for a number of unused invoices identified as missing (they were destroyed in the fire that broke out the night of June 26<sup>th</sup> - 27<sup>th</sup>, 2009, at the business office from Millennium Business Center from 2 - 4 Armand Călinescu Street, District 2, where the company carried out its activity), documents under special regime.

These invoices were subject to a litigation with ANAF, the latter sending a tax inspection report on September 20<sup>th</sup>, 2011 which estimated the amount of collected VAT for a number of unused invoices identified as missing.

Within the legal deadline, the Company appealed the Note of assessment no. F-MC 439 / June 30<sup>th</sup>, 2017, according to GD no. 92/2003 on the Fiscal Procedure Code.

By the date of drafting these financial statements, the appeal to the decision issued by ANAF is yet to be settled.



## Annexes

**ANNEX 1: Preliminary Separate Statement of Financial Position - unaudited**

[mn RON]	December 31, 2017	December 31, 2016	Δ	Δ (%)
<b>ASSETS</b>				
<b>Fixed Assets</b>				
Property, Plant and Equipment	3,044	3,190	(145)	(5)%
Intangible Assets	16	14	1	8%
Financial Assets	78	78	0	0%
Other Fixed Assets	0	10	(10)	n/a
<b>Total Fixed Assets</b>	<b>3,138</b>	<b>3,292</b>	<b>(154)</b>	<b>(5)%</b>
<b>Current Assets</b>				
Inventories	33	30	3	9%
Receivables	812	852	(40)	(5)%
Other Financial Assets	0	135	(135)	n/a
Cash and equivalents	521	934	(413)	(44)%
<b>Total Current Assets</b>	<b>1,366</b>	<b>1,951</b>	<b>(585)</b>	<b>(30)%</b>
<b>TOTAL ASSETS</b>	<b>4,504</b>	<b>5,243</b>	<b>(739)</b>	<b>(14)%</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' Equity</b>				
Share capital, out of which	733	733	0	0%
<i>Subscribed Share Capital</i>	733	733	0	0%
Initial offering	50	50	0	0%
Legal Reserves	119	116	3	2%
Reserve Fund from Reevaluation	500	549	(49)	(9)%
Other Reserves	57	57	0	0%
Retained Earnings	1,241	1,602	(361)	(23)%
<b>Total Shareholders' Equity</b>	<b>2,700</b>	<b>3,108</b>	<b>(408)</b>	<b>(13)%</b>
<b>Long term liabilities</b>				
Non-Current Deferred Revenues	411	430	(19)	(4)%
Loans	195	502	(307)	(61)%
Deferred Tax Liabilities	26	30	(4)	(14)%
Employee Benefit Obligations	43	43	0	0%
<b>Total Non-Current Liabilities</b>	<b>675</b>	<b>1,005</b>	<b>(330)</b>	<b>(33)%</b>
<b>Current Liabilities</b>				
Trade Payables and Other Payables	700	874	(174)	(20)%
Other Tax and Social Security Liabilities	9	9	(0)	0%
Loans	317	138	179	129%
Provisions	62	54	9	16%
Non-Current Deferred Revenues	41	38	3	7%
Corporate Tax to be paid	0	17	(17)	(100)%
<b>Total Current Liabilities</b>	<b>1,129</b>	<b>1,130</b>	<b>(1)</b>	<b>0%</b>
<b>Total Liabilities</b>	<b>1,804</b>	<b>2,135</b>	<b>(310)</b>	<b>(15)%</b>
<b>Total Shareholders' Equity and Liabilities</b>	<b>4,504</b>	<b>5,243</b>	<b>(739)</b>	<b>(14)%</b>

**ANNEX 2: Preliminary Separate Statement of profit and loss - unaudited**

[mil.lei]							
JANUARY - DECEMBER							
Indicator	Realized 2017	Realized 2016	Budgeted 2017	Realized 2017 vs 2016	Realized 2017 vs 2016 (%)	Realized vs Budgeted 2017	Realized vs Budgeted 2017 (%)
Operating Revenues							
Transmission Revenues	1,055	1,146	1,097	(91)	(8)%	(42)	(4)%
System Service Revenues	651	716	664	(65)	(9)%	(13)	(2)%
Revenues from the Balancing Market	1,305	814	1,272	491	60%	33	3%
Other Revenues	49	47	48	2	4%	1	1%
<b>Total operating Revenues</b>	<b>3,060</b>	<b>2,723</b>	<b>3,081</b>	<b>338</b>	<b>12%</b>	<b>(21)</b>	<b>(1)%</b>
Operating Expenses							
System Operation Expenses	258	231	241	27	12%	17	7%
Expenses on the Balancing Market	1,305	814	1,272	491	60%	33	3%
Expenses regarding the ancillary services	661	561	600	100	18%	61	10%
Depreciation	312	323	345	(11)	(3)%	(33)	(10)%
Salaries and other Retributions	185	212	195	(27)	(13)%	(10)	(5)%
Maintenance and Repairs	85	88	109	(3)	(3)%	(24)	(22)%
Materials and Consumables	8	8	17	0	0%	(9)	(53)%
Other Operating Expenses	179	134	116	45	33%	63	54%
<b>Total Operating Expenses</b>	<b>2,993</b>	<b>2,371</b>	<b>2,895</b>	<b>622</b>	<b>26%</b>	<b>98</b>	<b>3%</b>
<b>Operating Profit</b>	<b>67</b>	<b>352</b>	<b>187</b>	<b>(284)</b>	<b>(81)%</b>	<b>(119)</b>	<b>(64)%</b>
Financial Revenues	19	30	13	(11)	(36)%	6	48%
Financial Expenses	40	47	26	(7)	(14)%	15	57%
<b>Net Financial Result</b>	<b>(21)</b>	<b>(17)</b>	<b>(13)</b>	<b>(4)</b>	<b>26%</b>	<b>(8)</b>	<b>67%</b>
<b>Profit before Corporate Tax</b>	<b>46</b>	<b>335</b>	<b>174</b>	<b>(289)</b>	<b>(86)%</b>	<b>(128)</b>	<b>(73)%</b>
Corporate Tax	20	63	28	(43)	(68)%	(8)	(28)%
<b>Profit of the Financial Year</b>	<b>26</b>	<b>272</b>	<b>146</b>	<b>(246)</b>	<b>(90)%</b>	<b>(120)</b>	<b>(82)%</b>

**ANNEX 3: Separate Statement of Cash Flow - preliminary results - unaudited**

[M RON]	2017	2016	Δ
<b>Cash flows from operating activities</b>			
Profit for the period	26	272	(246)
<b>Adjustments for:</b>			
Corporate Tax Expense	20	62	(42)
Depreciation Expenses	312	323	(12)
Expenses with adjustments for depreciation of various debtors, net	31	6	25
Provisions Expenses from depreciation of the trade receivables and other receivables	43	25	18
Revenues from the reversal of provisions for depreciating the trade receivables and of other receivables	(11)	(10)	(1)
Loss from the sale of tangible assets, net	1	0	1
Expenses with value adjustments of tangible assets, net	2	5	(3)
Expenses regarding the provisions for risks and expenses, net	8	23	(15)
Financial expenses regarding the adjustments for impairment of fixed assets	0	0	(0)
Interest expense, interest income and unrealized foreign exchange gains	21	17	4
<b>Cash flows before changes to working capital</b>	<b>453</b>	<b>725</b>	<b>(271)</b>
<b>Changes in:</b>			
Clients and similar accounts -Electricity and other activities	6	(39)	43
Clients - Balancing	(31)	(100)	70
Clients – Cogeneration	12	(20)	33
Cash withdrawal of National Agency for Fiscal Administration	(100)	0	(100)
Inventories	(3)	4	(7)
Trade Payables and Other Liabilities - Electricity and other activities	(155)	(67)	(88)
Liabilities - Balancing	(82)	122	(204)
Liabilities - Cogeneration	41	7	35
Other Taxes and Social Insurance Obligations	0	2	(2)
Deferred Revenues	(16)	(27)	10
<b>Cash flows from operating activities</b>	<b>127</b>	<b>606</b>	<b>(479)</b>
Paid Interests	(22)	(25)	3
Paid Corporate Tax	(8)	(66)	58
<b>Net cash from operating activities</b>	<b>96</b>	<b>515</b>	<b>(419)</b>
<b>Cash flows used in investing activities</b>			
Acquisition of Tangible and Intangible Assets	(183)	(172)	(11)
Cashing unused down payments	0	30	(30)
Cashing from sales of Tangible Assets	0	0	(0)
Cashed Interests	6	5	1
Received Dividends	2	3	(1)
Other Financial Assets	135	(65)	200
<b>Net cash used in investing activities</b>	<b>(40)</b>	<b>(199)</b>	<b>159</b>
<b>Cash flows used in financing activities</b>			
Repayments of Long-Term Loans	(134)	(162)	28
Special dividends paid according to GO 29/2017	(170)	0	(170)
Dividends paid	(166)	(194)	29
<b>Net cash used in financing activities</b>	<b>(470)</b>	<b>(357)</b>	<b>(113)</b>
<b>Net decrease of cash and cash equivalents</b>	<b>(413)</b>	<b>(41)</b>	<b>(372)</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>521</b>	<b>934</b>	<b>(413)</b>

**ANNEX 4: Economical and financial indicators corresponding to the reporting period –preliminary results unaudited**

Indicators	Calculation formula	2017	2016
<b>Current liquidity indicator (x)</b>	$\frac{\text{Current assets}}{\text{Current Liabilities}}$	1.27	1.73
<b>Indebtedness indicators (x):</b>			
(1) Indebtedness indicator	$\frac{\text{Debt capital} \times 100}{\text{Shareholders' Equity}}$	18.97	20.60
(2) Indebtedness indicator	$\frac{\text{Debt capital} \times 100}{\text{Committed capital}}$	15.95	17.08
<b>Customer rotation speed (days)</b>	$\frac{\text{Customers average balance} \times \text{no. days of the period}}{\text{Turnover}}$	71.41	72.71
<b>Tangible assets rotation speed (x)</b>	$\frac{\text{Turnover}}{\text{Fixed Assets}}$	0.98	0.97

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



**Annex 5 REPORT (according to the Decision of the Extraordinary General Assembly of Shareholders no. 4/29.04.2015) regarding the agreements signed in the fourth quarter of 2017 for the purchase of goods, services and works with a value greater than 500,000 euro/purchase (for purchases of goods and works) and of 100,000 euro/acquisition respectively (for services)**

No.	Agreement number	Agreement Subject	Duration (months)	Value		Agreement type	Legal basis	Acquisition procedure	Acquisition initiator
				Lei	Euro				
0	1	2	3	4	5	6	7	8	9
1	C 277/2017	Technical upgrade of the Ungheni 220/110/20 kV substation	40	0.00	9,168,216.00	Works	Law 99/2016 + GD 394/2016	Open Auction	Executive
2	C 264/2017	Upgrading the Bacău Sud and Roman Nord 110 kV substations associated to the Moldova 400 kV axis	34	38,079,648.00	0.00	Works	Law 99/2016 + GD 394/2017	Open Auction	Executive
3	C 260/2017	Upgrading the 110 and 400(220) KV installations in the Focșani Vest substation	29	22,748,075.00	0.00	Works	Law 99/2016 + GD 394/2018	Open Auction	Executive
4	C 209/2017	Equipping the 110 kV Nord cell and changing the elements in the Obor 2 110 kV cell from the Fundeni 220/110/10 KV substation	12	2,504,202.00	0.00	Works	Law 99/2016 + GD 394/2019	Open Auction	Executive
5	CR 52/2017	RC – 400 KV d.c. OHL Țânțăreni – Turceni g1+2, g3+4	24	2,498,000.00	0.00	Works	Law 99/2016 + GD 394/2019	Open Auction	Craiova transportation branch
6	C 198/2017	Equipment for videowall type display for the control rooms of the dispatching DEC/DET centres	42	3,717,187.00	0.00	Supply	Law 99/2016 + GD 394/2020	Open Auction	Executive
7	C 263/2017	Strategic services / works in installations under National Power Grid Company "Transelectrica" SA's management	36	227,419,041.00	0.00	Services	Law 99/2016 + GD 394/2021	Open Auction	Executive

8	C 248/2017	Software eurostag & syscan: 1 new Eurostag license, 1 new syscan license, maintenance and upgrade (service) for 6 eurostag licenses and 3 syscan licenses	36	924,692.00	0.00	Services	Law 99/2016 + GD 394/2022	Negotiation without prior invitation to a competitive offering procedure	Executive
9	PT 53/15080/2017	Cleaning and cleanness maintenance services at the ST Pitești objectives	36	705,224.00	0.00	Services	Law 99/2016 + GD 394/2023	Open Auction	Pitești transportation branch
10	C 233/2017	Air transport services (framework agreement)	12	697,581.00	0.00	Services	Law 99/2016 + GD 394/2024	Simplified procedure	Executive
11	C 210/2017	Financial audit services for the period between 2017 – 2019	36	600,000.00	0.00	Services	Law 99/2016 + GD 394/2025	Simplified procedure	Executive
12	TM 102/2017	Cleaning services at the ST Timișoara offices – batch 1 – Timiș county	24	468,108.00	0.00	Services	Law 99/2016 + HG 394/2026	Open Auction	Timisoara transportation branch

## Annex 6 – Glossary of terms

“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”, “CNTEE”, “TEL”	National Power Grid Company Transelectrica SA
“CPT”	Own Technological Consumption
“SB”	Supervisory Board
“NPD”	National Power Dispatcher
“EBIT”	Earnings Before Interest & Tax
“EBITDA”	Earnings Before Interest, Taxes, Depreciation and Amortization
“EBT”	Earnings Before Tax
“ENTSO-E”	European Network of Transmission System Operators for Electricity
“GD”	Government Decision
“IFRS”	International Financial Reporting 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”	Official Journal of Romania
“GO”	Government Ordinance
“OPCOM”	Romanian Electricity Market Operator OPCOM SA
“GEO”	Government Emergency Ordinance
“DAM”	Day-Ahead Market
“PTG”	Power Transmission Grid, national and strategic interest electric grid with a nominal voltage greater than 110 kV
“NPS”	National Power System
“SMART”	Trading Company for the Electric Transport Network Maintenance SMART SA
“FFS”	Functional System Service
“TSS”	Technological System Service
“TEL”	Stock exchange symbol for Transelectrica
“TSR”	Total efficiency for the shareholders
“EU”	European Union
„u.m.”	Unit of measurement
“USD” or “US dollars”	American Dollar, the official currency of the United States of America
“WACC”	Weighted Average Cost of Capital