

## **Note**

**regarding the financial results included in the Annual Report 2017, according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica" - SA on April 30<sup>th</sup>, 2018**

The attached note provides the financial key figures, stock exchange information, profit distribution and the financial report that were updated using the Stand-alone financial statements according to Decision 6 of 30 April 2018 the Shareholders' General Ordinary Assembly of the National Power Grid Company Transelectrica SA

**Directorate,**

**Adrian-Constantin  
RUSU**

**Directorate  
Chairman**

**Dan-Valeriu  
ARDELEAN**

**Directorate  
Member**

**Andreea-Georgiana  
FLOREA**

**Directorate  
Member**

**Georgeta-Corina  
POPESCU**

**Directorate  
Member**

**Florin-Cristian  
TĂTARU  
Directorate  
Member**

**Cristina STOIAN**

Director of the Accounting&Financial Strategy Direction

**Veronica CRISU**

Manager of the Accounting Department

Key figures according to the Decision no. 6 of the Ordinary General Shareholders Meeting /30.04.2018

FINANCIAR					
3.060 mil lei	▲ 12% y/y	Revenues	68 mil lei	▼ 81% y/y	EBIT
380 mil lei	▼ 44% y/y	EBITDA	28 mil lei	▼ 90% y/y	Net profit

Stock-exchange information 2015-2017 according to the Decision no. 6 of the Ordinary General Shareholders Meeting /30.04.2018

Indicator	31.12.2017	31.12.2016	31.12.2015
Number of shares	73,303,142	73,303,142	73,303,142
Stock exchange capitalization (mil lei)	1,800	2,140	2,137
Stock exchange capitalization (mill euro)	386	471	472
Maximum price (lei/share)	33.7	31.15	32.47
Minimum price (lei/share)	24.55	26.40	25.19
Price at the beginning of the year (lei/share)	29.2	29.15	29.27
Price at year-end (lei/share)	24.55	29.20	29.15
Profit per share (lei/share)	0.39	3.72	4.91
PER	63.67	7.86	5.93
P/BV	0.66	0.69	0.71
Gross dividend per share (lei)	-	2.257	2.65
Special gross dividend per share (lei)*	2.330	-	-
Dividend return**%	-	7.73	9.09
Free Float %	41.31	41.31	41.31

\*as per allocation of Other reserves

\*\*dividend return proposed for approval in the General Assembly of Shareholders was calculated using the most recent share price of December 31<sup>st</sup>, each year.

Profit distribution 2015-2017 according to the Decision no. 6 of the Ordinary General Shareholders Meeting /30.04.2018

Indicator		2017	2016	2015
Net result	mil lei	28	175	360
Distributed dividend	mil lei	-	336	194
Gross distribution ratio*	%	-	90	75
Actual distribution ratio**	%	-	124	54.0
Gross dividend per share	lei	-	2.257	2.650
Special dividend per share***	lei	2.330	-	-

\* The gross distribution ratio was approved by Decision of the General Assembly of Shareholders

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

\*\*\* Special dividend accordingly with GD 29/2017

Stand-alone financial results for the year 2017 according to the Decision no. 6 of the Ordinary General Shareholders Meeting on April 30<sup>th</sup>, 2018, published in the Annual Report 2017 on March 28<sup>th</sup>, 2018<sup>1</sup>

In 2017, Transelectrica recorded a decrease in the financial profitability compared to 2016. This development was mainly caused by the lowering of the average tariffs approved by ANRE for transmission services.

The factors that determined this development were:

- Decrease in transmission revenues by 8% caused by the negative correction applied by ANRE to the Company as of July 1<sup>st</sup>, 2016 and July 1<sup>st</sup>, 2017.
- Decrease in interconnection capacity allocation revenues by 7.9%.
  - Increase in the electricity quantity transported through the power networks of the Power Transmission Grid, the energy quantity charged by the Company being with 2.3% higher than in the previous year, against the background of internal consumption increase. Thus, EBITDA from allowed-profit activities decreased by ▼22%, reaching the value of 459 mil lei compared to 587 mil lei. At the same time, the zero-profit activities (technological system services) registered a 79 mil lei loss as of December 31<sup>st</sup>, 2017, compared to the 88 mil lei profit registered as of December 31<sup>st</sup>, 2016.

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.

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. Additionally, certain multiannual coordinates for the 5 years have been subject to an interim review (investment plan, ARB opening balance, controllable OPEX, non-controllable OPEX, efficiency factor, tariffable energy quantity). The review regulator of the parameters initially set forth at the beginning of the regulatory period based its actions upon those hypothesis used in the tariff calculation with the real values registered by the Company and the increase in predictability.

The increase of operational costs by 31% in 2017 compared to 2016 is also due to recording within late payment expenses due to the state budget of the amount of 24.2 mil lei (the amount results after recording the loss resulting from the additional payment obligations recorded in the ANAF-DGAMC Tax Inspection Report in the amount of RON 75.7 mil lei, within the retained earnings from the correction of accounting errors, according to the Address no. 1649 of 16.04.2018).

The amount of 24.2 mil lei relates to the ANAF-DGAMC findings for the period 2005-2010, which include both additional debts and accessories corresponding to the unrealized technological services provided in the framework contracts approved by ANRE, for which Transelectrica records revenues from penalties. At the same time, the ANAF-DGAMC records additional debts and accessories corresponding to the Court of Auditors findings regarding the expenses that were not aimed at the continuous training of employees and which are not forms of professional training and for which the Court of Auditors Decision no. 14/2011 was issued.

In 2017, the Company challenged the ANAF Tax Decision and, considering that by March

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<sup>1</sup> The information included in Chapter 11 from the 2017 Annual Report elaborated by governance structures on 28 March 2018 were updated using the stand-alone Financial Statements in accordance with Decision 6 of 30 April 2018 of the Shareholders' General Ordinary Assembly of the National Power Grid Company Transelectrica SA

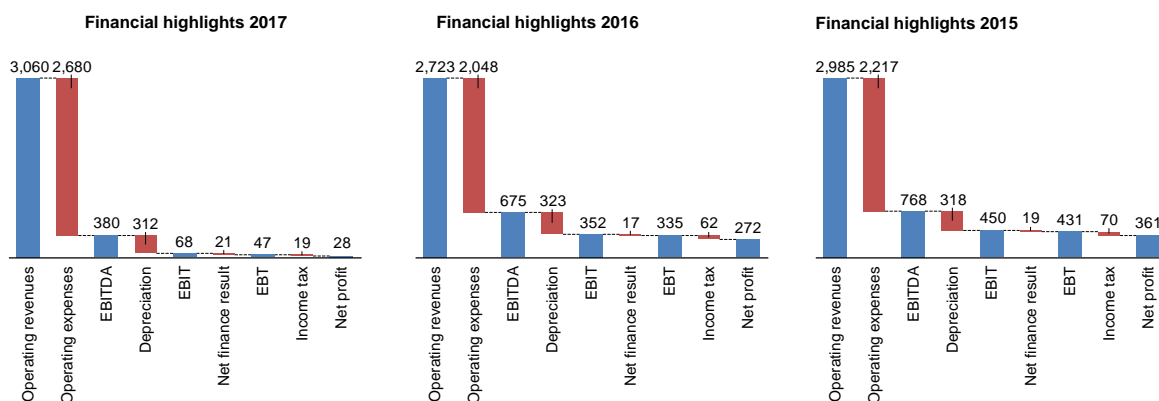
13<sup>th</sup>, 2018, the appeal was not solved, it has filed a lawsuit against ANAF-DGAMC requesting the annulment of the Decision, through case file no. 1802/2/2018 which is enrolled at the Bucharest Court of Appeal. The main factors that determined the increase of the net financial loss compared to 2016 were:

- Financial revenues registered a 10.9 mil lei

Net result (mil lei) according to the Decision no.6 of the Ordinary General Shareholders Meeting/30.04.2018

decrease in 2017 compared to 2016,

- mainly determined by the decrease in revenues from the exchange rate differences. Financial expenses registered a 6.8 mil lei decrease in 2017 compared to 2016, mainly determined by the evolution of the national currency compared to the currencies in which investment loans are contracted.



## Separate account of profit and loss

Separate account of profit and loss according to the Decision no.6 of the Ordinary General Shareholders Meeting /30.04.2018

Mil. Lei	2017	2016	2015	17/16
Charged energy volume (TWh)	54.75	53.52	52.47	▲2,3%
<b>ALLOWED PROFIT ACTIVITIES</b>				
<b>Operational revenue</b>	<b>1,173</b>	<b>1,260</b>	<b>1,400</b>	<b>▼7%</b>
Transmission, including revenues from interconnection capacity allocation	1,055	1,146	1,285	▼8%
Functional system services and unplanned exchanges	68	68	69	▲1%
Other revenues	50	46	46	▲10%
<b>Operational Costs</b>	<b>(715)</b>	<b>(672)</b>	<b>(657)</b>	<b>▲6%</b>
System operation costs	(258)	(231)	(232)	▲12%
Maintenance (including IT&C) and repairs	(85)	(88)	(89)	▼4%
Personnel expenses	(179)	(212)	(186)	▼16%
Other expenses	(193)	(141)	(150)	▲37%
<b>EBITDA</b>	<b>459</b>	<b>587</b>	<b>743</b>	<b>▼22%</b>
Depreciation	(312)	(323)	(318)	▼4%
<b>EBIT</b>	<b>147</b>	<b>264</b>	<b>424</b>	<b>▼44%</b>
<b>ZERO-PROFIT ACTIVITIES</b>				
<b>Operational revenue</b>	<b>1,887</b>	<b>1,463</b>	<b>1,585</b>	<b>▲29%</b>
Technological System Services	582	649	662	▼10%
The Balancing Market	1,305	814	923	▲60%

Mil. Lei	2017	2016	2015	17/16
<b>Operational Costs</b>	<b>(1,966)</b>	<b>(1,375)</b>	<b>(1,561)</b>	<b>▲ 43%</b>
Technological System Services	(661)	(561)	(638)	▲ 18%
The Balancing Market	(1,305)	(814)	(923)	▲ 60%
<b>EBIT</b>	<b>(79)</b>	<b>88</b>	<b>24</b>	<b>n/a</b>
<b>ALL ACTIVITIES (WITH ALLOWED PROFIT AND ZERO-PROFIT)</b>				
Operational revenue	<b>3,060</b>	<b>2,723</b>	<b>2,985</b>	<b>▲ 12%</b>
Operational Costs	(2,680)	(2,048)	(2,217)	▲ 31%
<b>EBITDA</b>	<b>380</b>	<b>675</b>	<b>767</b>	<b>▼ 44%</b>
Depreciation	(312)	(323)	(318)	▼ 4%
<b>EBIT</b>	<b>68</b>	<b>352</b>	<b>449</b>	<b>▼ 81%</b>
Financial Result	(21)	(17)	(19)	▼ 24%
<b>EBT</b>	<b>47</b>	<b>335</b>	<b>430</b>	<b>▼ 86%</b>
Income tax	(19)	(62)	(70)	▼ 70%
<b>Net result</b>	<b>28</b>	<b>272</b>	<b>360</b>	<b>▼ 90%</b>
Net result per share	0.39	3.72	4.91	▼ 90%

### Allowed profit activities

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

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

Revenues from allowed profit activities according to the Decision no.6 of the Ordinary General Shareholders Meeting /30.04.2018

Mil. lei	2017	2016	2015	16/15
<b>Operational revenue</b>	<b>1,173</b>	<b>1,260</b>	<b>1,400</b>	<b>▼ 7%</b>
<b>Transmission</b>	<b>1,055</b>	<b>1,146</b>	<b>1,285</b>	<b>▼ 8%</b>
Revenues from transmission tariffs	971	1,057	1,174	▼ 8%
Revenues from allocating the interconnection capacity	76	82	102	▼ 8%
Revenues from reactive energy	8	8	8	▲ 9%
<b>Functional System Services</b>	<b>68</b>	<b>68</b>	<b>69</b>	<b>▲ 1%</b>
Revenues from functional system services tariffs	66	66	68	▲ 0%
Revenues from unplanned shifts on DAM	2	1	1	▲ 74%
<b>Other revenues</b>	<b>50</b>	<b>46</b>	<b>46</b>	<b>▲ 10%</b>

Against the background of a 2.3% increase in the electricity quantity delivered to consumers in 2017 compared to 2016, the revenues from the transmission service registered an 8% decrease and the functional system services registered an insignificant increase of 1.3%, mainly determined by the negative adjustment of tariffs starting with July 1<sup>st</sup>, 2016 and July 1<sup>st</sup>, 2017.

Thus, the revenues from the transmission activity registered a ca. 8.1% decrease in 2017, from 1,057 mil lei in 2016 to 971 mil lei in 2017, against the background of a negative adjustment of 10.2% of the average tariff for the transmission service.

The revenues from the interconnection capacity allocation registered a decrease of - 7.9% related to the usage level of the

interconnection capacity availability by the traders on the energy market.

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.

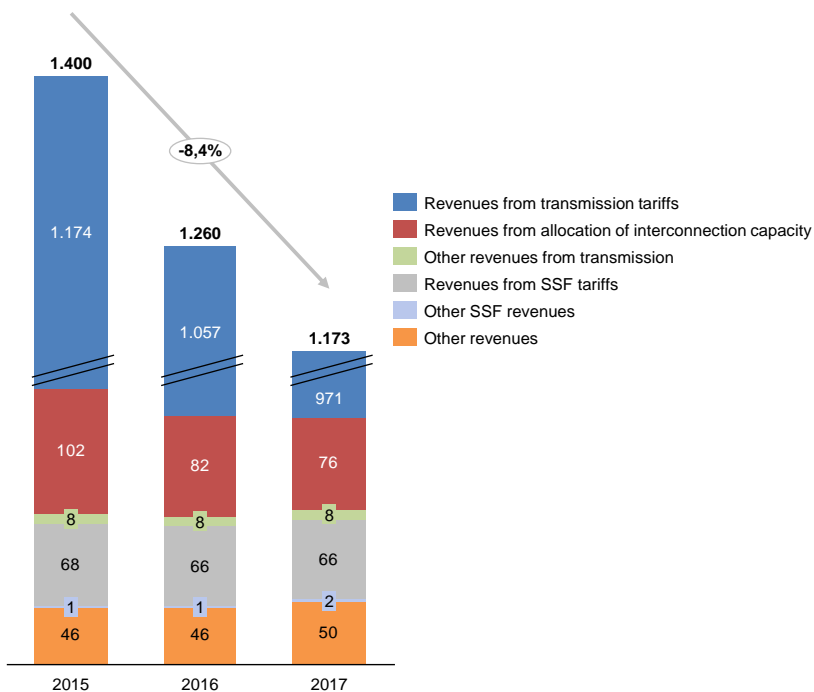
Starting with 2016 the UIOSI ("Use It Or Sell It") principle was implemented, according to which in the case of traders notifying a smaller capacity than that gained under annual and/or monthly auctions organized by Transelectrica, their capacity difference which was not notified will be sold during daily auctions. Transelectrica will remunerate the trader for the spare capacity, calculated as product Revenues from allowed profit activities (mil lei)

between (i) the difference between the capacity gained in the long-term and the notified capacity and (ii) the price obtained at the daily auctions. On the Hungarian border the direction is reversed, meaning that MAVIR compensates the participants for the spare 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.

The functional system services also registered an insignificant decrease of 0.2% during 2017, from 66.14 mil lei in 2016 to 65.98 mil lei in 2017, against the background of a 12% decrease of the average tariff.

Other revenues adjacent to the transmission service (reactive energy, international transit) have maintained at level close to the ones registered in the previous year.



## Expenses generated by the allowed profit activities

Mil lei	2017	2016	2015	17/16
<b>Operational Costs</b>	<b>715</b>	<b>672</b>	<b>657</b>	<b>▲ 6%</b>
<b>System operation costs</b>	<b>258</b>	<b>231</b>	<b>232</b>	<b>▲ 12%</b>
Expenses on own technological consumption	207	183	187	▲ 13%
Expenses on congestions	0	3	1	▼ 92%
Expenses on electricity consumption in PTG substations	14	15	14	▼ 6%
Expenses regarding the functional system services	16	13	12	▲ 29%
Expenses on Inter TSO Compensation (ITC)	20	17	18	▲ 19%
OPCOM administration expenses	0	0	0	
<b>Repairs and maintenance</b>	<b>85</b>	<b>88</b>	<b>89</b>	<b>▼ 4%</b>
<b>Personnel expenses</b>	<b>179</b>	<b>212</b>	<b>186</b>	<b>▼ 16%</b>
<b>Other Expenses</b>	<b>193</b>	<b>141</b>	<b>150</b>	<b>▲ 37%</b>
<b>Depreciation</b>	<b>312</b>	<b>323</b>	<b>318</b>	<b>▼ 4%</b>
<b>Operational costs inclusive of depreciation</b>	<b>1,026</b>	<b>996</b>	<b>975</b>	<b>▲ 3%</b>

The total operational expenses (including depreciation) registered in 2017 rose by 3% compared to the similar period of the previous year (1,026 mil lei, up from 996 mil lei).

### System operation cost

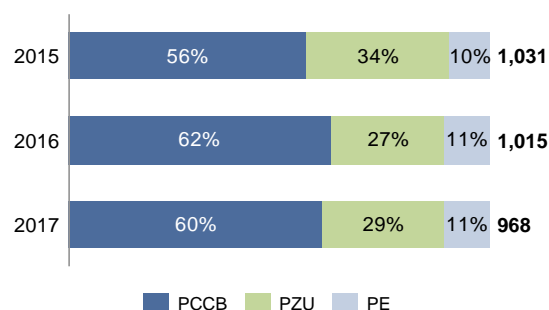
System operation costs registered a 11.7% decrease in 2017 compared to 2016, from 231 mil lei to 258 mil lei, mainly due to the increase in OTC expenses.

The total cost with the acquisition of energy necessary to cover the own technological consumption increased by 13.06% in 2017 compared to 2016. The positive evolution of the total cost in 2017 was determined by the increase in prices on the Day-Ahead Market (DAM), Intraday Market (IDM) and Balancing Market (BE) for the acquisition of electricity for the own technological consumption, from 180.3 lei/MWh in 2016, to 213.7 lei/MWh, against the background of a ca. 4.6% decrease in the electricity quantity necessary to cover OTC in the PTG (from 1,015 GWh in 2016, to 968 GWh in 2017).

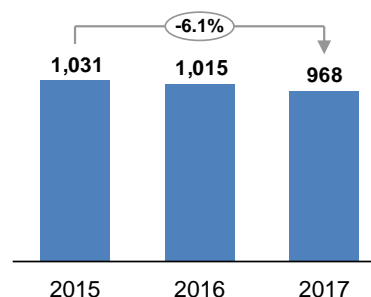
Average prices with which Transelectrica procured energy for its own technological consumption registered increases in 2017 compared to 2016 for procurements on the Centralized Market for Bilateral Contracts

("CMBC") 2.5%, the spot market ("DAM") - 47.1% and the balancing market ("BE") - 22.3%.

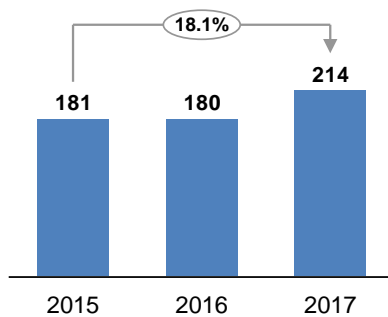
Procuring mix depending on the quantities purchased from markets (GWh)



Quantities purchased from markets (GWh)



Average unit price of energy purchased for OTC (mil lei)



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

In 2017, the congestion value decreased by 3 mil lei compared to the 2016 value due to the extreme meteorological conditions of January 2016 in Dobrogea.

### Expenses regarding the functional system services

The expenses on the functional system services represent the non-contracted international exchanges of electricity with the neighboring countries and the expenses on unplanned exchanges on the day-ahead market (DAM).

The ca. 26.7% increase in expenses regarding functional system services was determined by the increase in expenses on the balancing market and the day-ahead market in terms of unplanned electricity exchanges (exports) with neighboring countries interconnected in the NPS, due to the price increase on the centralized electricity markets.

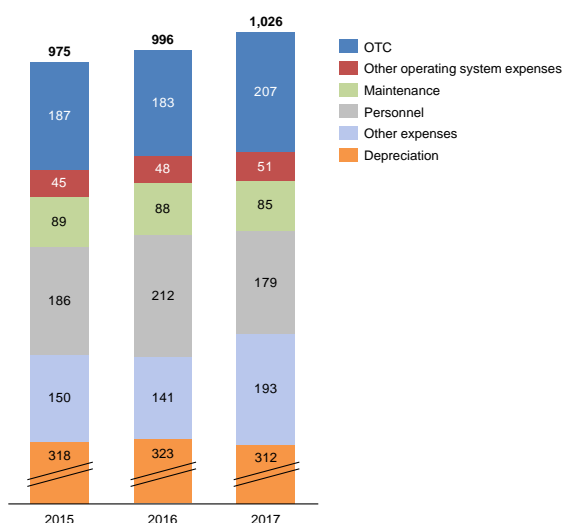
### Repairs and maintenance

Expenses on maintenance works decreased by 3.7% in 2017 (from 88 mil lei in 2016 to 85 mil lei in 2017) without an impact on the operational safety of the NPS.

The annual maintenance program for 2017 was carried out providing priority to works/services that lead to increasing the operational safety of installations, or to completing the contracted works/services and those contributing to the good operation of installations. We must also take into account the perspective of implementing the remote control and supervision program for electric installations, which requires the rehabilitation of electric equipment and will lead to reduced personnel and operational expenses.



Expenses generated by the allowed profit activities (mil lei) according to the Decision no.6 of the Ordinary General Shareholders Meeting /30.04.2018



## Zero-profit activities

Summary of revenues from zero-profit activities

Mil. lei	2017	2016	2015	17/16
<b>Operational revenue</b>	<b>1,887</b>	<b>1,463</b>	<b>1,585</b>	<b>▲ 29%</b>
Technological System Services	582	649	662	▼ 10%
The Balancing Market	1,305	814	923	▲ 60%

In 2017, revenues from technological system services decreased by 66 mil lei compared to 2016 as a result of reduced tariffs applicable to such services starting with July 1<sup>st</sup>, 2016 and July 1<sup>st</sup>, 2017, but also due to a proper administration of system services under operational safety conditions of the NPS.

In 2017, revenues from the balancing market registered an increase of 491 mil lei compared to 2016, determined by:

- the high degree of unpredictability and volatility of production from renewable sources (especially wind).
- over-contracting / subcontracting on the markets prior to the balancing market (given that PRE s did not have significant notification imbalance values) and reduced participation / trading on the intra-day electricity market. The increasing of the negative imbalance registered at the level of the suppliers of electricity on the balancing market, ie increasing the imbalance between the notified

net contractual position and the actually supplied energy;

- the very low temperatures recorded in the first quarter of 2017, which generated the recording of higher values of the electricity consumption in the operation of the NES;
- the increase in electricity consumption amid the severe weather phenomena recorded in July and August 2017 (heat in late July and early August, strong wind with storm in July, so the production in wind power plants varied a lot during the day and with large production variations from one hour to the next;
- Hydraulic evolution (low hidraulicity):

Summary of expenses from zero-profit activities

Mil. lei	2017	2016	2015	17/16
<b>Operational Costs</b>	<b>1,966</b>	<b>1,375</b>	<b>1,561</b>	<b>▲43%</b>
Technological System Services	661	561	638	▲18%
The Balancing Market	1,305	814	923	▲60%

Expenses with technological system services carried out have registered a 100 mil lei increase in 2017 compared to 2016, determined by the higher purchase prices for technological system services on the competitive market compared to the regulated purchase prices.

The technological system services are purchased by the Company from producers in order to comply with the operational security limits of the NPS and of the quality of the electricity transmitted at the parameters required by the technical norms in force. The contracting of these services is performed:

- under regulated regime, based on Government and ANRE decisions;
- through competitive mechanisms.
- According to GD no. 138/April 8<sup>th</sup>, 2013 on the adoption of measures regarding the electricity supply security, the Company purchased technological system services according to the terms of the regulations issued by the National Energy Regulatory Authority (ANRE), as follows:
  - For the period January 1<sup>st</sup> - March 31<sup>st</sup>, 2017, the purchase of technological system services was conducted in the regulatory regime (slow tertiary reserve) according to GD no. 844/November 9<sup>th</sup>,

- 2016, as subsequently amended and supplemented, by which the "Winter Program in the Energy Sector for Assuring the safety and stability of the NES" was approved.

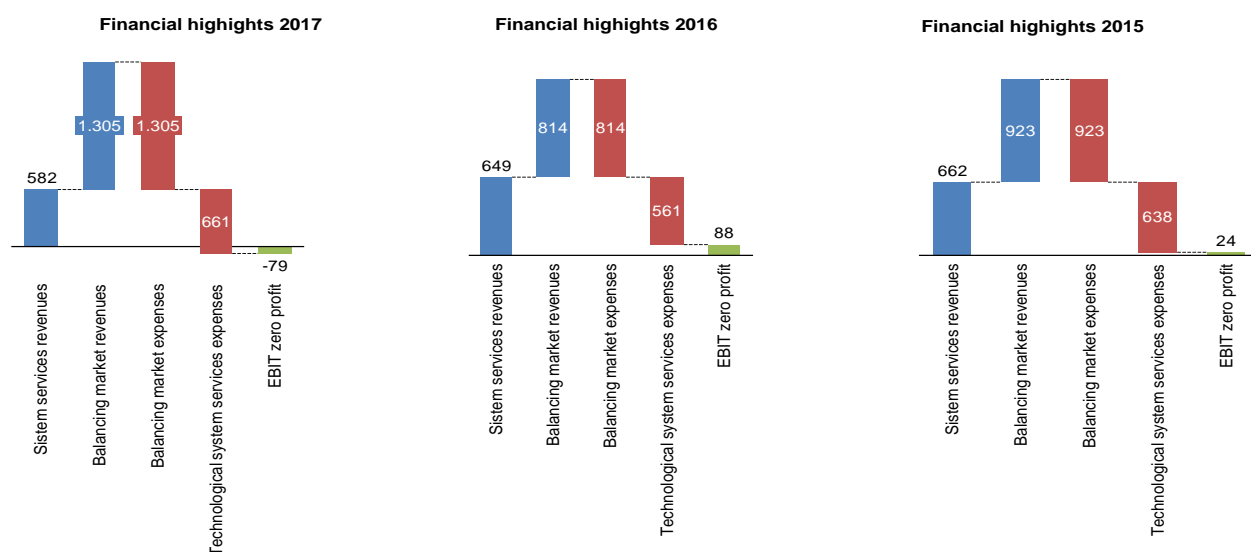
- In the timeframe January 1<sup>st</sup> - June 30<sup>th</sup>, 2017, the purchase of the ancillary services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 1035/June 22<sup>th</sup>, 2016) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 1034/June 22<sup>th</sup>, 2016).

- In the timeframe July 1<sup>st</sup> – 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).

Transelectrica re-invoices the value of the technological system services purchased from producers, to the electricity suppliers licensed by ANRE, who include this cost further down the supply chain to the end consumer who ultimately benefits from these services.

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

## Results of zero-profit activities (mil lei)



## Financial result

The net financial result (loss) registered by the Company as of December 31<sup>st</sup>, 2017 increased by 4.1 mil lei compared to 2016.

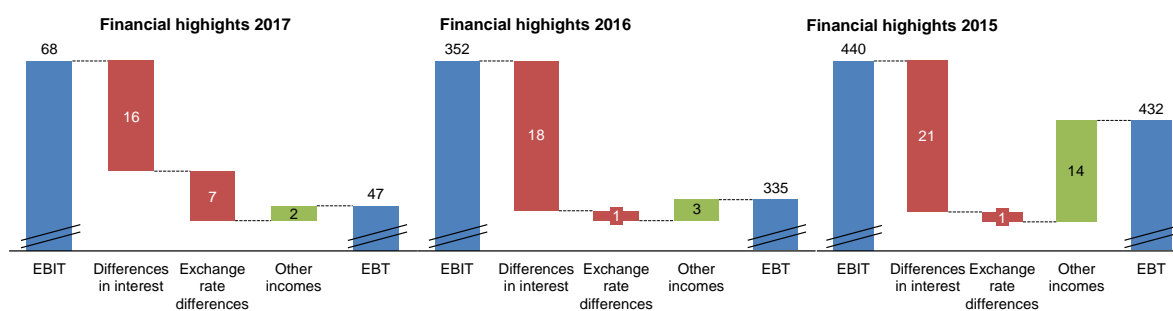
The increase of the net financial result (loss) regarding the exchange rate differences in 2017 compared to 2016, amounting to 6 mil lei, was influenced by the evolution of the

exchange rate of the national currency in relation to foreign currencies in which the Company has contracted bank loans for financing the investment programs (Euros, Dollars).

## Exchange rate evolution

Lei	31-Dec-17	31-Dec-16	31-Dec-15	17/16
1 EUR	4.6597	4.5411	4.5245	▲ 2.6%
1 USD	3.8915	4.3033	4.1477	▼ 9.6%
100 JPY	3.4574	3.6834	3.4453	▼ 6.1%

Figure 12: Financial results (mil lei)



**Balance sheet – financial position according to the Decision no. 6 of the Ordinary General Shareholders Meeting/30.04.2018**

Mil. lei	2017	2016 restated	2015	17/16
<b>Fixed Assets</b>				
Property, Plant and Equipment	3,044	3,190	3,341	▼ 5%
Intangible assets	16	14	35	▲ 8%
Financial assets	78	78	56	0%
Long-term receivables	0	10	0	n/a
<b>Total</b>	<b>3,138</b>	<b>3,292</b>	<b>3,432</b>	<b>▼ 5%</b>
<b>Current assets</b>				
Inventories	32	30	34	▲ 5%
Customers and assimilated accounts	819	852	723	▼ 4%
Other financial assets	0	135	70	n/a
Cash and cash equivalents	521	934	974	▼ 44%
<b>Total</b>	<b>1,371</b>	<b>1,951</b>	<b>1,802</b>	<b>▼ 30%</b>
<b>TOTAL ASSETS</b>	<b>4,509</b>	<b>5,243</b>	<b>5,234</b>	<b>▼ 14%</b>
<b>Shareholders' equity</b>				
Share capital	733	733	733	▼ 0%
Retained earnings	1,259	1,602	1,488	▼ 21%
Reserves	726	772	809	▼ 6%
<b>Total</b>	<b>2,718</b>	<b>3,108</b>	<b>3,029</b>	<b>▼ 13%</b>
<b>Non-current liabilities</b>				
Loans	195	502	635	▼ 61%
Other liabilities	484	503	532	▼ 3%
<b>Total</b>	<b>684</b>	<b>1,005</b>	<b>1,167</b>	<b>▼ 32%</b>
<b>Short-term liabilities</b>				
Loans	317	138	167	▲ 129%
Trade payables	700	874	776	▼ 20%
Other liabilities	91	118	95	▼ 23%
<b>Total</b>	<b>1,108</b>	<b>1,130</b>	<b>1,038</b>	<b>▼ 2%</b>
<b>Total liabilities</b>	<b>1,792</b>	<b>2,135</b>	<b>2,205</b>	<b>▼ 16%</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>4,509</b>	<b>3,738</b>	<b>5,234</b>	<b>▼ 14%</b>

## Assets

**Fixed assets** registered a ca. 5% decrease at the end of 2017, mainly following the registration of tangible and intangible asset depreciation and due to the increase of the amounts related to property, plant and equipment in progress.

In 2017, the Company recorded an increase in value of property, plant and equipment in

progress, particularly represented by the investment works in high voltage electricity lines, and the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the commissioning of the investment objectives, as follows:

Tangible assets were not revalued during 2017. The management concluded that the

market prices didn't change significantly compared to 2016, when the Company conducted the last revaluation, and there is no indication of impairment of the tangible assets held by the Company both from internal and external sources.

On December 31<sup>st</sup>, 2017 the Company no longer registers long-term receivables representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high-efficiency cogeneration promotion, following the integral collection of the amount of 4.6 mil lei representing the overcompensation for the year of 2016, amount that should have been collected starting with the month of October 2018, according to the concluded agreements.

**Current assets** Current assets recorded a 30% decrease as of December 31<sup>st</sup>, 2017 (1,371 mil lei) compared to the value registered as of December 31<sup>st</sup>, 2016 (1,951 mil lei), mainly determined by the 44% decrease in cash and cash equivalents (521 mil lei as of December 31<sup>st</sup>, 2017 compared to 934 mil lei as of December 31<sup>st</sup>, 2016) and the annulment of bank deposits with maturity over 90 days, which on December 31<sup>st</sup>, 2016 amounted to 135 mil lei (recorded under "Other financial assets").

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

- the decrease in the electricity quantity delivered to consumers in December 2016, compared to December 2017;
- decrease of the average tariff approved by ANRE for these services

On December 31<sup>st</sup>, 2017, the Company registered receivables to be collected from the bonus type support scheme for promoting the high-efficiency cogeneration in a proportion of approximately 26% (December 31<sup>st</sup>, 2016 – 22%) 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 on the overcompensation of the activity regarding the support scheme for the year 2016, for which invoices were issued in the month of March 2017.

In the timeframe January 1<sup>st</sup> – December 31<sup>st</sup>, 2017, the amounts related to the bonus type support scheme have increased compared to December 31<sup>st</sup>, 2016, mainly due to the overcompensation decisions for 2016, issued in 2017.

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 – 63.4 mil lei and CET Govora SA – 13.2 mil lei;
- undue bonus for 2014 amounting to 3.9 mil lei, namely from RAAN – 2 mil lei, CET Govora – 1.9 mil lei;
- undue bonus for 2015 amounting to 0.5 mil lei, namely from CET Govora – 0.53 mil lei.
- overcompensation for 2015 in the amount of 9.7 mil lei, namely from Electrocentrale Oradea (debt taken over by Termoficare Oradea);
- undue bonus for 2016 amounting to 56.7 mil lei, namely from Electrocentrale Bucuresti – 56.7 mil lei;
- cogeneration contribution not collected from the suppliers of energy consumers, amounting to 2 mil lei, namely from: Transenergo Com – 5.8 mil lei, PetProd – 4.3 mil lei, Romenergy Industry – 2.7 mil lei, RAAN – 2.4 mil lei, Arelco Power – 2.4 mil lei, UGM Energy – 1.8 mil 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 Bucuresti, CET Govora) that have not agreed to this way of discharging the reciprocal receivables and debts, the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of

ANRE Chairman no. 116/2013 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.

On December 31<sup>st</sup>, 2017, other receivables amounting to 116.5 mil lei mainly include:

- interest on late payments computed for clients in default of payment, amounting to 65 mil lei (of which the amount of 26 mil lei represents penalties related to the support scheme); The highest interests on late payments have been registered by the following clients: RAAN (16.9 mil lei), SC CET Govora (9.6 mil lei), SC Eco Energy SRL (8.9 mil lei), SC Petprod SRL (8.9 mil lei), Total Electric Oltenia (3.3 mil lei), Arcelor Mittal Galati (2.3 mil lei), Also Energ (2.1 mil lei). Impairment adjustments were recorded for the interest on late payments calculated for the late payment on receivables from the operational activity;
- compensations owed by suppliers for not delivering electricity (Arelco Power 2.8 mil lei and Enol Grup 2.5 mil lei).
- Impairment adjustments were recorded for the compensations owed by suppliers from operating activities;
- down payments made to the supplier ELCOMEX – IEA SA amounting to 31.2 mil lei for which penalties amounting to 0.69 mil lei have been calculated. The down payments have been granted to the supplier ELCOMEX - IEA SA for performing 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 Constanta, 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.

Given that to the date of drafting the financial statements, the amounts guaranteed by ASITO KAPITAL SA for the payment of down payments have not been recovered, on December 31<sup>st</sup>, 2017 the Company registered impairment adjustments amounting to 31.18 mil lei.

- receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to 4.5 mil lei;
- deferred expenses amounting to 4.8 mil lei mainly represented by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future periods (3.3 mil lei), a guarantee fee for the BEI 25710 loan and commission of ING credit granting, maintenance and technical assistance, rents;
- other long-term receivables amounting to 4.5 mil lei, out of which 4.2 mil lei represent guarantees for temporary occupation of the land calculated and retained in accordance with Article 39 (1), (2) and (5) of Law no. 46/2008 on the Forestry Code, in order to achieve the investment objective Resita – Pancevo (Serbia) 400 kV OHL.
- receivables to be recovered from ANAF in the amount of RON 44 mil lei.

#### **Shareholders' Equity and Liabilities**

**Long-term liabilities** have registered a 32% decrease in 2017, as a result of reimbursements performed as per the maturity dates and loan agreements (from 1,005 mil lei as of December 31<sup>st</sup>, 2016 to 684 mil lei as of December 31<sup>st</sup>, 2017).

At the same time, **short-term liabilities** have registered a 2% decrease (from 1,130 mil lei as of December 31<sup>st</sup>, 2016 to 1,108 mil lei as of December 31<sup>st</sup>, 2017). This situation is mainly determined by:

- the increase in the current portion of long term credits, including interests related to long and short-term borrowings and liabilities (from 138 mil lei as of December 31<sup>st</sup>, 2016 to 317 mil lei as of December 31<sup>st</sup>, 2017)
- the 20% decrease in trade payables (from 874 mil lei as of December 31<sup>st</sup>, 2016 to 700 mil lei as of December 31<sup>st</sup>, 2017), due to:
  - the decrease of liabilities to suppliers from the operational activity – energy, as a result of the payment of outstanding obligations on the electricity market as of December 31<sup>st</sup>, 2016
  - the decrease of liabilities to suppliers on the balancing market, as a result of the decrease in trade volume on the balancing market in December 2017 compared to December 2016
  - the decrease of the contribution for high

efficiency cogeneration – the "Different creditors" category amounting to 32 mil lei as of December 31<sup>st</sup>, 2017 mainly represents the net position of the support scheme for high-efficiency cogeneration, decreased from 134 mil lei in December 31<sup>st</sup>, 2016 as a result of the decrease of the contribution for high-efficiency cogeneration.

### Shareholders' equity

Shareholders' equity registered a 13% decrease determined by the decrease of the revaluation reserve (500 mil lei as of December 31<sup>st</sup>, 2017 compared to 549 mil lei as of December 31<sup>st</sup>, 2016) and the 21% decrease in retained earnings (1,259 mil lei as of December 31<sup>st</sup>, 2017 compared to 1,602 mil lei as of December 31<sup>st</sup>, 2016).

The retained earnings arising from the correction of the accounting errors adjusted by

the recording of the loss resulting from the additional payment obligations recorded in the ANAF-DGAMC Tax Inspection Report is in the amount of RON 75.7 mil lei. Thus, according to Address no. 1649/ 16.04.2018 in 2017, the retained earnings were adjusted by the amount of RON 75.7 million representing additional payment obligations calculated up to 31.12.2016 out of the amount of RON 99 mil lei established by ANAF-DGAMC in their Tax Inspection Report.

### Cash flow

Cash flow according to the Decision no. 6 of the Ordinary General Shareholders Meeting /30.04.2018

Mil lei	2017	2016	2015	17/16
<b>Operational activity</b>				
Recording loss in retained earnings from correction off accounting errors	(75)	-	-	n/a
Results for the year	28	272	360	▼89%
Adjustments for cash flows from operating activity	403	453	448	▼11%
Cash flow before changes in current assets	<b>356</b>	<b>725</b>	<b>808</b>	<b>▼51%</b>
Changes in current assets	(41)	(119)	83	▼66%
Paid interests and taxes	(30)	(91)	-86	▼67%
<b>Net cash from the operational activity</b>	<b>96</b>	<b>515</b>	<b>805</b>	<b>▼81%</b>
<b>Investment activity</b>				
Purchase of tangible and intangible assets	(183)	(172)	(213)	▲6%
Collections from unused advances	-	30	(30)	n/a
Collections from the investment activity	8	8	19	0%
Other financial assets	135	(65)	79	n/a
<b>Cash used in the investment activity</b>	<b>(40)</b>	<b>(199)</b>	<b>(14)5</b>	<b>▼80%</b>
<b>Financing activity</b>				
Net (repayments)/collections from borrowings and bonds issuance	(134)	(162)	(197)	▼17%
Special dividends paid according to.OG 29/2017	(170)	-	-	n/a
Paid dividends	(166)	(194)	(205)	▼14%
<b>Cash used in the financing activity</b>	<b>(470)</b>	<b>(357)</b>	<b>(402)</b>	<b>▲32%</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(413)</b>	<b>(41)</b>	<b>258</b>	<b>▲907%</b>
<b>Cash and cash equivalents as of January 1<sup>st</sup></b>	<b>934</b>	<b>974</b>	<b>716</b>	<b>▼4%</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>521</b>	<b>934</b>	<b>974</b>	<b>▼44%</b>



## Indicators

Profitability, liquidity, risk and activity indicators according to the Decision no. 6 of the Ordinary General Shareholders Meeting/30.04.2018

Indicator	Calculation formula	2017	2016	2015
<b>Profitability indicators</b>				
a) EBITDA in total turnover	$\frac{\text{EBITDA}}{\text{Turnover}}$	0.13	0.25	0.26
b) EBITDA in shareholders' equity	$\frac{\text{EBITDA}}{\text{Shareholders' equity}}$	0.14	0.22	0.25
c) Gross profit ratio	$\frac{\text{Gross profit}}{\text{Turnover}}$	0.02	0.12	0.15
d) Rate of return on capital	$\frac{\text{Net profit}}{\text{Shareholders' equity}}$	0.01	0.09	0.12
<b>Liquidity indicators</b>				
a) Current liquidity indicator	$\frac{\text{Current assets}}{\text{Short-term liabilities}}$	1.24	1.73	1.74
b) Quick ratio indicator	$\frac{\text{Current assets} - \text{Inventories}}{\text{Short-term liabilities}}$	1.21	1.70	1.70
<b>Risk indicators</b>				
a) Debt ratio indicator	$\frac{\text{Debt capital}}{\text{Shareholders' equity}}$	0.19	0.21	0.26
b) Interest coverage ratio	$\frac{\text{EBIT}}{\text{Interest expenses}}$	3.15	14.65	15.75
<b>Activity indicators</b>				
a) Rotational speed of debts – clients	$\frac{\text{Customers average balance} \times 365}{\text{Turnover}}$	71.41	72.68	70.61





**Transelectrica<sup>®</sup>**

**Societate Administrată în Sistem Dualist**

**Annual Report 2017**

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

drafted according to Order no. 2844/2016 of the Ministry of Public Finances, as subsequently amended and supplemented and according to Law no. 24/2017 on issuers of financial instruments and market operations and to Annex 32 of Regulation no. 1/2006 issued by National Securities Commission,

**for the financial year concluded on December 31<sup>st</sup>, 2017**

<b>Report date:</b>	March 28 <sup>st</sup> , 2018
<b>Issuer:</b>	CNTEE TRANSELECTRICA SA, Two-Tier Company
<b>Registered office:</b>	Bucharest, No. 33 Gen. Gheorghe Magheru Blvd., 1 <sup>st</sup> district, ZIP code 010325
<b>Operational office:</b>	Bucharest, No. 2 - 4, Olteni Street, 3 <sup>rd</sup> District, ZIP code 030786
<b>Telephone/fax:</b>	021 303 5611/ 021 303 5610
<b>Unique registration code:</b>	13328043
<b>Number in the Commercial Register:</b>	J40/8060/2000
<b>LEI Code (Legal Entity Identifier)</b>	254900OLXOUQC90M036
<b>Company's establishment date:</b>	July 31 <sup>st</sup> , 2000/GEO 627
<b>Share capital:</b>	733,031,420 lei, subscribed and paid
<b>Trading regulated market for the issued securities:</b>	Bucharest Stock Exchange, Premium Category
<b>Main features of the issued securities:</b>	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, registered, dematerialized and unsecured bonds, traded at the BSE, the Debt Securities sector – 3 <sup>rd</sup> Category, corporate Bonds under the TEL 18 symbol; Maturity date December 19 <sup>th</sup> , 2018.
<b>Total market value:</b>	1,799,592,136 RON (24.55 lei/share as of December 31 <sup>st</sup> , 2017)
<b>Applied accounting standard:</b>	International Financial Reporting Standards
<b>Audit:</b>	The stand-alone financial statements are audited

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**REPORT ON  
THE  
LEADERSHIP  
STRUCTURES**

**2017**

## Message from the Board of Supervisors

In 2017, the National Power Grid Company "Transelectrica" SA continued its power transmission grid development plan by completing a series of works relevant for the operational security of the national power system, such as the modernization of the Tihau 220/110 kV substation or the technical upgrade of the Campia Turzii 220/110/20 kV transformation electrical substation. Towards the end of 2017 the Company also completed the connection between the Romanian power line portion (Resita – Romanian-Serbian border) and the one in Serbia (Pancevo – Romanian-Serbian border), which represents an important step in improving the energy interconnection degree of our country.

Transelectrica's goals for the following years is completing several projects pertaining to the technical upgrade and extension of the power transmission grid, so that the grid is well-sized for the transmission of power forecasted to be generated, imported, exported and shipped. One success in this regard was obtaining a 27 million euro grant from the European Commission for the construction of the Cernavoda – Stalpu power line, which shall contribute to increasing the interconnection capacity between Romania and Bulgaria and to integrate wind power in the Dobrogea region. For the commissioning of the Cernavoda – Stalpu power line, which will have a length of ca. 160 km, we must construct the Stalpu 400 kV substation and extend the Cernavoda and Gura Ialomitei substations. The Cernavoda – Stalpu line project is a major investment objective performed by the National

Power Grid Company Transelectrica SA which will be completed in 2020.

In order to maintain the operational security of the power system, Transelectrica concluded a bilateral agreement with the transmission and system operator from Bulgaria, Electroenergien Sistemien Operator – ESO – EAD, regarding the assurance of cross-border capacity delivery under emergency conditions. The agreement foresees the creation of an emergency helping mechanism which may be used by the both countries should a critical situation occur in the national power system.

The National Power Grid Company Transelectrica SA was also actively involved in the energy policy of the European Union, by participating at the energy summit CEEP. The summit took an in-depth approach to the opportunities and challenges in the industry resulted from the implementation of two legislative packages pertaining to the sustainable energy security and "clean energy for all Europeans".

Both by the activities carried out in 2017, and by the activities planned out for the following years, including an increased involvement for the implementation of annual investment plans and increasing the weight of the criteria for completing the maintenance and investment works in the assessment of the management's activities, the Company seeks to ensure the operational security of the National Power System and to complete the 400 kV national powering.

Cristian Eugen Radu

Chairman of the Board of Supervisors

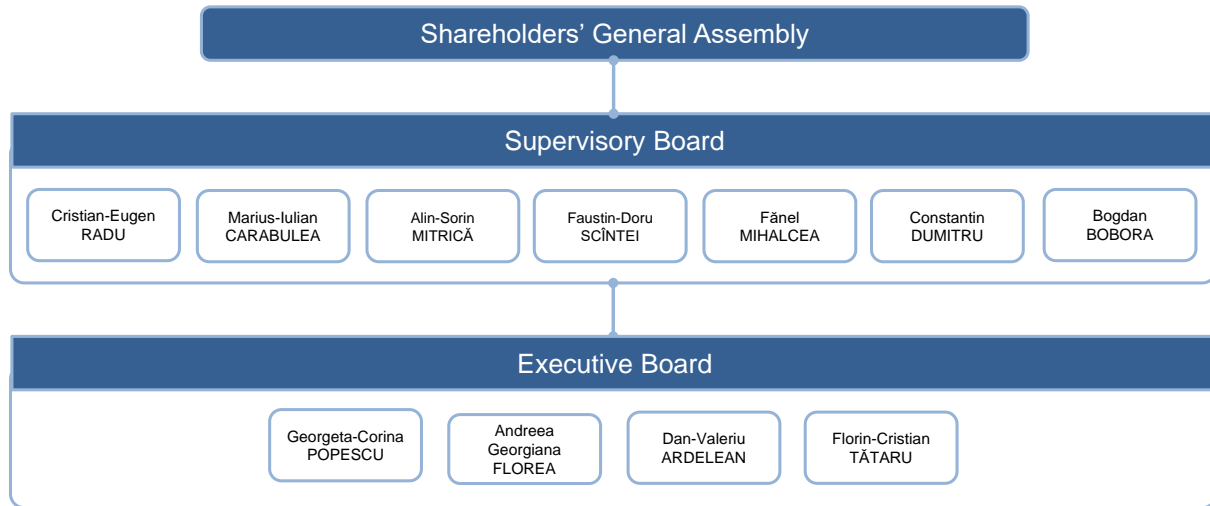


**Board of Supervisors**

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

the decision of July 18<sup>th</sup>, 2012, of the Shareholders' General Extraordinary Assembly by a Directorate (5 members) under supervision of a Board of Supervisors (7 members).

Figure 1:Organizational structure



As of the date of drafting this Report, the Board of Supervisors' structure, with a mandate duration of 4 months, namely until March 30<sup>th</sup>, 2018, is the following:



**Cristian-Eugen RADU ,  
Chairman of the Board  
of Supervisors**

At the meeting from May 31<sup>st</sup>, 2017, the members of the Board of Supervisors of CN Transelectrica SA elected Cristian-Eugen RADU for the position of Chairman of the Board of Supervisors. During his professional career he has held management and supervisory positions such as: Chairman of the Board of Supervisors of Complexul Energetic Oltenia, Chairman of the Board of Supervisors of BTT S.A., special manager of SC Delta Systems SA, National Sales Director at Carpatica Asig SA, General Director of the General Directorate for Logistic Support Management – Authority for State Assets Administration, Director of the

Network Management Division – Volksbank Romania, Director of Sales, training and marketing support at BCR Banca pentru Locuinte – BCR Erste, Marketing Director - Raiffeisen Banca pentru Locuinte, Piraeus Bank Romania.

Cristian-Eugen Radu received his MBA from "Katz School of Business", University of Pittsburgh, Pennsylvania, U.S.A., graduated the University of Bucharest, Faculty of History, and the International Management Center, Budapest, Hungary. He also attended a class for "Security and good governance" held at the National Defense College and holds a Green Belt Lean Six Sigma certificate from Ascendis Romania.

**Marius-Iulian CARABULEA, Member of the  
Board of Supervisors**

With a wide experience in central public administration, during his professional career he has held positions such as: Deputy Secretary-General of the Government, Secretary-General and Deputy Secretary-General – Ministry of Economy, Secretary-General – Ministry of Tourism, Deputy Secretary-General of the Department for

Water, Forests and Fisheries, Personal Adviser to the Minister's Cabinet delegated for social dialogue with the Ministry of Labor, Family, Social Protection and Elderly, Personal Adviser to the Minister – Ministry of Education and Research.

Marius-Iulian Carabulea graduated the Christian University "Dimitrie Cantemir" - the Faculty for Political Sciences and Political Management, and holds a post-graduate degree from the National Defense College – National University for Defense "Carol I".

**Alin-Sorin MITRICĂ, Member of the Board of Supervisors**

With a wide experience in local and central public administration, during his professional career he has held a number of positions such as Public Administrator of Dolj County (2008-2013, 2015) and State Secretary at the Ministry of European Funds (between 2013-2015).

At the same time, Alin-Sorin Mitrică has management experience in the private sector as well, with the position of Deputy Director General at SC ANAGRAMA SRL in 2015.

Alin-Sorin Mitrică graduated from the Bucharest University, Faculty of Political Sciences and holds a master's degree in Applied Marketing – Economic Sciences. He also holds a PhD in history.



**Faustin-Doru SCÎNTEI, Member of the Board of Supervisors**

With a professional experience of 28 years, he has held multiple managerial positions over the years. Since October 2017 he holds the

Director position of the Real Estate Department in the Romanian Post National Company. Faustin-Doru SCÎNTEI held the position of Director of the County Post Office Buzau in the periods 2014-2017 and 2009-2011. Between 2011 and 2014 he also held the position of Technical Quality Control Inspector at S.C. Urbis – Serv S.R.L and in

2016 he held the position of member in the Management Board of S.C. Urbis – Serv S.R.L. Faustin-Doru SCÎNTEI graduated the National School of Political and Administrative Studies and between 2007 and 2009 he attended the master's classes in Organizational and Human Resources Management.



**Fănel MIHALCEA, Member of the Board of Supervisors**

With a solid professional experience of over 40 years in the legal field, holding the positions of First Prosecutor and Deputy First Prosecutor

with the Public Prosecutor's Office attached to the Braila Court during several periods between 1996 and 2017.

Fănel Mihalcea graduated the Faculty of Law at the "Al. I. Ioan Cuza" University in Iasi (1971-1975). Between 1987 and 1988 Fănel Mihalcea also attended the postgraduate studies program in the field of Legal Sciences at the "Al. I. Ioan Cuza" University in Iasi, and between 2004 and 2006 he attended the master's studies in Community Law at the "Danubius" University in Galati.



**Bogdan BOBORA, Member of the Board of Supervisors**

Between September 2005 and May 2017, Mr. Bogdan Bobora served as a Financial Controller at

HEIDELBERGCEMENT ROMANIA SA. Since July 2017, Mr. Bobora is a personal counselor to the Secretary of State in the Ministry of Economy. In 2004, he pursued internship in Germany at HEIDELBERG BETONELEMENT GMBH. Mr. Bogdan Bobora is a graduate from the University "Politehnica" Timișoara, the Faculty of Civil Engineering (in English).

**Constantin DUMITRU, Member of the Board of Supervisors** Mr. Constantin Dumitru has an experience of over 30 years in central public

administration. Since 2017 he holds the position of State Secretary Advisor within the Ministry of Economy. Previously he held the position of Secretary-General Advisor within the Romanian Government.

Constantin Dumitru graduated the Air Force Academy and holds a PhD in National Security – Methods of capitalizing and exploiting intelligence which constitutes and attack on national security.

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

As of drafting this report, Transelectrica has no knowledge of the existence of litigations or administrative proceedings against the Board of Supervisors pertaining to its activity within the issuer or related to the ability of said person to fulfill his/her duties within the issuer.

Transelectrica has no knowledge that a member of the Board of Supervisors held TEL shares as of December 31<sup>st</sup>, 2017.

Three consultative committees are active in the Board of Supervisors on the date of this report, as of the drafting of this report: a Nomination and Remuneration Committee, an Audit Committee and an Energy Security Committee.

## CONSULTATIVE COMMITTEES OF THE BOARD OF SUPERVISORS

### Audit Committee

The members of this committee are Marius Iulian CARABULEA, Faustin Doru SCÎNTEI, Sorin Alin MITRICĂ, Constantin DUMITRU and Bogdan BOBORA.

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

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

performance indicators of the Company's activities.

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

At the same time, it provides assistance to Board of Supervisors to carry out its supervision and oversight responsibilities on the development and update of the company's general development strategy, it assists the Board of Supervisors in identifying the major development lines in the field and makes recommendations for the major topics to be considered of potential impact in the administration<sup>1</sup> and in the management plan<sup>2</sup>.

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<sup>1</sup> Up to May 30<sup>th</sup>, 2017, the *Administration plan drafted by the Board of Supervisors of the National Power Grid Company "Transelectrica"-SA* has been in force, which includes the administration strategy

The observance of corporate governance principles set forth in the new Corporate Governance Code of the Bucharest Stock Exchange is a commitment permanently assumed by the Board of Supervisors. Through the Audit committee, the Board of Supervisors aims at enhancing transparency with respect to the activities of organizational entities of the Company by implementing new internal regulations for the Public internal audit and the management of significant risks within CNTEE Transelectrica SA.

#### **Nomination and remuneration committee**

The members of this committee are Cristian Eugen RADU, Marius Iulian CARABULEA, Constantin DUMITRU, Faustin Doru SCÎNTEI, Sorin Alin MITRICĂ, Fănel MIHALCEA and Bogdan BOBORA..

With regard to the nomination area, the Nomination and Remuneration Committee coordinates the appointment process of Directorate members and makes recommendations with respect to both the selection of the Directorate members and the provisional occupation of the vacancies within the Board of Supervisors.

The Nomination and Remuneration Committee supervises certain positions in the Company administration and permanently updates the professional competencies of Directorate members. Nomination and Remuneration Committee validates the Company's organizational chart.

As far as the remuneration area is concerned, the Nomination and remuneration committee drafts the remuneration policy for the Directorate and Board of Supervisors members and submits it to the Shareholders' General Assembly for approval.

In the annual report, the Nomination and Remuneration Committee provides the total amount of the direct and indirect remuneration

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*throughout the mandate*, approved by Decision no. 6/2013 of the General Assembly of Shareholders.

<sup>2</sup> Up to September 16<sup>th</sup>, 2017, the *Management plan* has been in force, approved by Decision no. 37/June 6<sup>th</sup>, 2014 of the Board of Supervisors.

for Directorate and Board of Supervisors members, while observing the proportionality principle with the responsibility and with the time allocated by them to their tasks.

#### **Energy Security Committee**

The members of this committee are *Fănel MIHALCEA, Cristian Eugen RADU, Constantin DUMITRU and Marius Iulian CARABULEA.*

The Energy security committee monitors and advises the Board of Supervisors, the Directorate and the Company's specific compartments in the implementation of strategic objectives for the system operator and energy security for the entire National Power System ("NPS"), energy security in the entire PTG and energy security and protection of the critical infrastructure.

Another attribution consists in getting involved, under the mandate of the Board of Supervisors, together with the Directorate, in the dialogue with public authorities having attributions and competencies in the energy security field (Ministry of Energy, specific Parliamentary Commissions).

#### **Changes in the Board of Supervisors**

In the period January 1<sup>st</sup>, 2017 - May 30<sup>th</sup>, 2017 the Transelectrica's Board of Supervisors membership ("BS" or the "Board") was as follows:

- Dragoș Corneliu Zachia-Zlatea - Board of Supervisors Chairman
- Ovidiu Petrișor Artopolescu – Member of the Board of Supervisors
- Radu Bugică – Member of the Board of Supervisors
- Daniel – Cristian Pîrvulescu - Member of the Board of Supervisors
- Costin Mihalache – Member of the Board of Supervisors

and the Consultative Committees had the following structure:

The **Audit Committee** consisted of the following members: Radu Bugică, Daniel Cristian Pîrvulescu and Dragoș Corneliu Zachia-Zlatea.

The **Nomination and Remuneration Committee** consisted of the following



members: Costin Mihalache, Ovidiu Petrișor Artopolescu and Daniel Cristian Pîrvulescu.

**Energy Security Committee**

Dragoș Corneliu Zachia-Zlatea, Daniel - Cristian Pîrvulescu, Costin Mihalache, Ovidiu Petrișor Artopolescu.

- **January 31<sup>st</sup>, 2017** – the members of the Board of Supervisors appoint Ciprian BOLOS as provisional member of the Board of Supervisors; this appointment became effective starting with February 1<sup>st</sup>, 2017 and until May 30<sup>th</sup>, 2017, the date of expiry of the mandates of the members elected by Decision no. 4/30.05.2013 of the Ordinary General Assembly of Shareholders.
- **March 27<sup>th</sup>, 2017** – the members of the Board of Supervisors take note of Ciprian BOLOȘ's waiver of the provisional member position in the Board of Supervisors, following the resignation, starting with March 27<sup>th</sup>, 2017
- **March 29<sup>th</sup>, 2017** – pursuant to Decision no. 28 of March 29<sup>th</sup>, 2017, the members of the Board of Supervisors appoint Ștefan-Valeriu IVAN as provisional member in the Board of Supervisors. The mandate becomes effective as of March 31<sup>st</sup>, 2017 and expires on May 30<sup>th</sup>, 2017, the date of expiry of the mandates of the current Board of Supervisors members.
- **May 30<sup>th</sup>, 2017** – the mandates of the current Board of Supervisors members expire, and Decision no. 5 of the Ordinary General Assembly of Shareholders approves the Board of Supervisors' structure of CNTEE Transelectrica SA for a 4-month mandate, as follows:
  - Cristian-Eugen RADU – Board of Supervisors 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

- **May 31<sup>st</sup>, 2017** – the members of the Board of Supervisors appointed Cristian-Eugen RADU to the position of Chairman of the Board of Supervisors.

Ștefan Valeriu IVAN is appointed as Chairman of the Nomination and Remuneration Committee and the following are appointed as members:

- Marius Iulian CARABULEA
- Ștefan Valeriu IVAN
- Iulius Dan PLAVETI
- Corneliu SOROCEANU
- Beatrice AMBRO

Beatrice AMBRO IVAN is appointed as Chairman of the Audit Committee and the following are appointed as members:

- Cristian Euge RADU
- Beatrice AMBRO
- Bogdan BOBORA
- ȘTEFAN Valeriu IVAN

Corneliu SOROCEANU is appointed as Chairman of the Energy Security Committee and the following are appointed as members:

- Iulius Dan PLAVETI
- Cristian-Eugen RADU
- Corneliu SOROCEANU

On the same date, the members of the Board of Supervisors take note of the fact that Luca Nicolae IACOBICI rejected the appointment in the position of provisional member of the Executive Board.

- **November 9<sup>th</sup>, 2017** – Decision no. 12 of the Extraordinary General Assembly of Shareholders of CNTEE Transelectrica SA approves the structure of the provisional members of the Board of Supervisors of CNTEE 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
- **November 28<sup>th</sup>, 2017** – according to Decision 75 from November 28<sup>th</sup>, 2017 the Board of Supervisors members approve the Regulation on the Organization and Functioning of the Board of Supervisors of CNTEE Transelectrica SA, effective as of November 29<sup>th</sup>, 2017. In the same meeting The Board of Supervisors members take note of the termination of the mandate as Board of Supervisors member of Ștefan-Valeriu Ivan as a result of waiving the mandate granted starting with November 20<sup>th</sup>, 2017.
- **December 12<sup>th</sup>, 2017** – the Board of Supervisors appoint Cristian-Eugen RADU as Chairman of the Nomination and Functioning Committee and the following are appointed as members:
  - Cristian–Eugen RADU
  - Marius Iulian CARABULEA
  - Fănel MIHALCEA
  - Bogdan BOBORA
  - Alin-Sorin MITRICĂ
  - Faustin-Doru SCĂNTEI

Beatrice AMBRO IVAN is appointed as Chairman of the Audit Committee and the following are appointed as members:

- Beatrice AMBRO
- Bogdan BOBORA
- Marius Iulian CARABULEA
- Alin-Sorin MITRȚĂ
- Faustin-Doru SCĂNTEI

Fănel MIHALCEA is appointed as Chairman of the Energy Security Committee and the following are appointed as members:

- Fănel MIHALCEA
- Cristian-Eugen RADU
- Marius Iulian CARABULEA

During the meeting of January 10<sup>th</sup>, 2018, the Ordinary General Assembly of Shareholders of CNTEE "Transelectrica" SA recalls Beatrice AMBRO from the position of provisional member of the Board of Supervisors of CNTEE "Transelectrica" S.A. and appoints Constantin DUMITRU as provisional member of the Board of Supervisors of CNTEE "Transelectrica" S.A, with a mandate duration until March 30<sup>th</sup>, 2018.

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.

## **Report of the Board of Supervisors**

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

The Board of Supervisors relies on the corporative governance principles, which state a responsible, professional and ethical attitude of the Company towards all stakeholders. The Board analyzes the Company's strategy and the premises of the environment in which it operates with a view to plan its development and performance, thus providing rigorous articulation of objectives. Within the Board of Supervisors, the Company's Directorate supplied detailed information about the stand-alone financial statements for 2017, the management plan<sup>3</sup>, the maintenance schedule and planned investments. We have assessed the significant transactions for Transelectrica during board meetings, using the reports submitted by the Directorate.

#### *Board of Supervisors*

Chairman of the Board of Supervisors

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<sup>3</sup> Up to September 16<sup>th</sup>, 2017, the *Management plan* has been in force, approved by Decision no. 37/June 6<sup>th</sup>, 2014 of the Board of Supervisors.

## Message from the Directorate

In 2017, Transelectrica went through multiple transformations and stood up to important challenges. This year however marked the start of a new phase, a new approach in the Company's development. Starting with the second half of the year, our efforts focused on unlocking and accelerating investments, succeeding to promote three Government Decisions on the expropriation of land plots which will allow the performance of essential investment projects, such as: the Cernavoda – Stalpu overhead power line, the Gutinas – Smardan overhead power line and the Ostrovu Mare – PTG overhead power line. Due to these efforts we were able to obtain a 27 million euro grant from the European Commission for the construction of the Cernavoda – Stalpu overhead power line, one of the six objectives which Transelectrica has on the list of projects of common interest, approved by the European Commission in November 2017.

The challenges of 2017 stood in the lowering of tariffs for the transmission and system services, in conjunction with the energy market fluctuations which generated higher costs with regards to the own technological consumption.

It is very important to highlight that Transelectrica is a strategic company providing a public service with a regulated profit, and 2017 was the year in which we started to compensate profits above the ones regulated in recent years. Under these circumstances, in the second half of the year, we developed a vision focused on investments and we channeled our efforts on the substantial improvement of the investments amount, in order to provide sustainability and predictability to the Company.

Essential dimensions for Transelectrica are the European and national ones. Transelectrica is a strategic company for Romania, which also operates outside Romania's borders.

Transelectrica is a part of the European transmission and system operators' family ever since 2003, initially called UCTE and subsequently ENTSO-E, with constant participations in workgroups aimed to integrate energy markets, as well as regional projects. Due to its geographical positioning, Romania – via Transelectrica – represents a regional stability pole for the European network of system services and electricity transmission. In the following period, we aim not only to maintain this regional role, but to strengthen it.

Taking into account its resources, Romania has the right to represent a strong voice at European level from an energy security point of view.

This is one of the reasons for which one of the main objectives of the Company is increasing the interconnection degree. In present day, Romania has a 7.4% interconnection degree, and the target that we must achieve by 2020 is 10%. The completion of the Resita – Pancevo interconnection by the end of 2017 contributed to this objective.

Since January 1<sup>st</sup>, 2018, Transelectrica must accomplish several conditionalities related to regionalization. We are part of a Regional Security Center and analyses will no longer be conducted on national level, but on regional level. We are part of this regional center together with other powerful European states such as Germany, Belgium, France and Italy.

In 2018, the year of the Great Union centenary, Transelectrica aims to reinvent itself, to consolidate its regional and European position. The implementation of the new grid codes at our level, as transmission and system operator with strategic regional role, shall also redefine our way of reporting and our approach. The national concept with which we are accustomed to operate as transmission and system operator, rises to the regional concept level.



**The Directorate**

At the moment of drafting this report, Transelectrica's Directorate had the following structure:



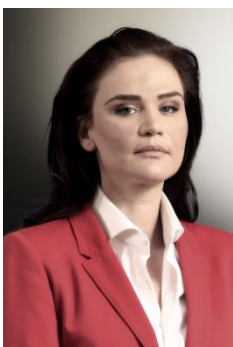
**Georgeta – Corina POPESCU, Chairman of the Directorate**

Appointed in the position of Directorate Chairman of Transelectrica starting with June 1<sup>st</sup>, 2017. With a wide experience in the energy sector, she held

various management positions, such as: Member in the Management Board of Electrica S.A. (2015 – 2017), State Secretary within the Ministry of Energy (2015 – 2017), manager of the Bucharest branch of OMV Trading GmbH Viena Austria (2011 – 2015), Director of Regulation and Supervision of the Energy Market within E.ON Romania (2008 – 2011), Director of the Energy Purchasing Department within E.ON Moldova (2007 – 2008) and Head of the Distribution Department within Electrica S.A. (2001 – 2006).

Throughout her professional career, Georgeta – Corina Popescu also carried out activities within Professional Organizations, such as: the International Council on Large Electric Systems, "Insular Cables" Study Committee (CIGRE), the Romanian Association of Electricity Suppliers (AFEER) and the Romanian National Committee – the World Energy Council (RNC-WEC).

In 1991, Georgeta – Corina Popescu graduated the Faculty of Power Engineering, Electric Power Section within the "Politehnica" University, and in 2007 she obtained a management certification from The Open University (CODESC).



**Andreea Georgiana FLOREA, Directorate Member**

Appointed in the position of Directorate Member of Transelectrica starting with September 17<sup>th</sup>, 2017.

Throughout her professional activity, Andreea Georgiana Florea held management and execution positions within financial and banking institutions and authorities, such as: The Financial Supervisory Authority - In-charge with financial education (2015-2016)/In-charge with public relations on the capital market (2015-2016); Insurance Management Institute - Deputy Director for Educational Programs (2012-2015); Banca Româneasca - Rahova branch - Branch manager (2009-2012)/Director of operations (2008-2009); UNICREDIT ROMANIA - Credit Monitoring Officer for Legal Persons (2008); ING BANK ROMANIA, Head of the Credit Analysis and Management Department for Natural Persons (2005-2006)/Credit Analysis Officer for Natural Persons (2003-2004).

Andreea Georgiana Florea graduated the Faculty of Domestic and International Commercial and Banking Relations within the "Romanian-American" University (1999-2003). She also attended several improvement classes in the financial and banking sector, organized by the Romanian Banking Institute and ING BANK.



**Florin-Cristian TĂTARU, Directorate Member**

Appointed in the position of Directorate Member of Transelectrica starting with September 17<sup>th</sup>, 2017.

Throughout his professional activity, Florin-Cristian Tătaru held several positions within authorities, public institutions and commercial companies, namely: Member of the Romanian Parliament (2008-2012 and 2012-2016 legislative terms); Chairman-Director General of the Health Insurance Fund Maramures (2001-2005); Chief Financial Officer of the Maramures Forest Office (2009-2011/2016-2017); Relations manager within Banca Comercială Carpatica S.A., Baia Mare branch (2006-2009).

Florin-Cristian Tătaru graduated the Faculty of International Economic Affairs within the Bucharest University of Economic Studies (1986-1990). Florin-Cristian Tătaru also graduated three master's degrees: "Health

System Management" at the Bucharest University (2003-2004), "Public policies and European Integration" at the National School of Political Science and Public Administration (2003-2005) and "Banks and Capital Markets" with the Babeş-Bolyai University of Cluj-Napoca (2006-2007). In 2004 he also attended an improvement class in the field of health insurance management, organized by the National Institute of Administration and the National Health Insurance Fund.



**Dan-Valeriu ARDELEAN, Directorate Member**

Appointed in the position of Directorate Member of Transelectrica starting with September 17<sup>th</sup>, 2017. Throughout his professional activity, he held several management positions within

commercial companies, such as: S.C. "Dav Project&Consulting" S.R.L - Director (2014-2017); S.C. Infoconcept S.R.L - Project Manager (2014-2015); S.C "Duo Design" S.R.L - Project Manger (2011-2013); S.C. "Lara Oil" S.R.L. - Director (2003-2011); Romcontrol Oradea Agency - Director (2001-2003).

Dan-Valeriu Ardelean also has experience in the academic field, holding the position of graduate assistant between 1993 and 1996 and assistant lecturer between 1996 and 2000 at the Faculty of Mathematics and Physics within the University of Oradea.

Dan-Valeriu Ardelean graduated the Faculty of Natural Sciences, Physics specialization within the West University of Timisoara and a master's degree organized by the University of Oradea, Biophysics specialization. Dan Valeriu Ardelean also holds a specialization in spectroscopy and lasers from the University of Timisoara.

As of drafting this report, Transelectrica has no knowledge of the existence of litigations or administrative proceedings against the Directorate members pertaining to their activity within the Company or related to the ability of said person to fulfill his/her duties within the Company.

No member of the Directorate held shareholdings in the Company's share capital as of December 31<sup>st</sup>, 2017.

### Changes in the Directorate of Transelectrica:

**March 13<sup>th</sup>, 2017** – the Chief Executive Officer, Ion-Toni TEAU (Directorate Chairman) waived his mandate. Even though the request for waiving the mandate was starting with April 26<sup>th</sup>, 2017, the termination of the mandate contract took place by mutual agreement of the parties as of May 31<sup>st</sup>, 2017.

**March 29<sup>th</sup>, 2017** – taking into account the selection procedure of a new member in the Company's Directorate, in line with the provisions of GEO no. 109/2011 on the corporate governance of public companies, as subsequently amended and supplemented, by Decision no. 26/29.03.2017 the Board of Supervisors appointed Georgeta-Corina POPESCU as member in the Company's Directorate.

The term of office of Georgeta-Corina POPESCU was granted for the period left until the expiration of the replaced member's mandate, namely until September 16<sup>th</sup>, 2017.

**April 20<sup>th</sup>, 2017** – taking into account Ion-Toni TEAU's renouncement to his mandate as member and Chairman of the CNTEE "Transelectrica" SA Directorate starting with April 26<sup>th</sup>, 2017, he was requested to terminate the mandate contract no. C419/November 13<sup>th</sup>, 2014, by mutual agreement of the parties, on May 31<sup>st</sup>, 2017. Ion-Toni TEAU, member and Chairman of the CNTEE "Transelectrica" S.A. Directorate, accepted the request of the Board of Supervisors on April 21<sup>st</sup>, 2017, and his mandate contract as member and Chairman of the CNTEE "Transelectrica" S.A. Directorate will be terminated on May 31<sup>st</sup>, 2017.

**April 28<sup>th</sup>, 2017** – the members of the Board of Supervisors approve the mandate contract to be concluded with Georgeta-Corina POPESCU, Directorate member.

**May 29<sup>th</sup>, 2017** – the members of the Board of Supervisors appoint Luca-Nicolae IACOBICI to the position of provisional member of the Directorate of the Company starting with June 1<sup>st</sup>, 2017, with a limited mandate period until September 16<sup>th</sup>, 2017, or until the appointment

of a new Directorate member pursuant to GEO no. 109/2011 on the corporate governance of public enterprises. At the same time, starting with June 1<sup>st</sup>, 2017, Luca-Nicolae IACOBICI is appointed to the position of Directorate Chairman (alternatively called Chief Executive Officer – "CEO" – of the Company Transelectrica SA); the mandate becomes effective only under the condition that he will sign the statement of acceptance before a notary public. The mandate is granted until September 16<sup>th</sup>, 2017.

**May 31<sup>st</sup>, 2017** – the termination by mutual agreement of the mandate contract concluded with Ion-Toni TEAU as member and Chairman of the CNTEE Transelectrica SA Directorate, on May 31<sup>st</sup>, 2017.

Taking into account that up until May 31<sup>st</sup>, 2017, Luca-Nicolae IACOBICI did not expressly accept the mandate as member of the Directorate, in order to ensure the continuity of the Company's activity, Georgeta-Corina POPESCU is appointed to the position of Chairman of the Directorate (alternatively called Chief Executive Officer – CEO – of the Company), starting with June 1<sup>st</sup>, 2017.

**June 12<sup>th</sup>, 2017** – Luca-Nicolae IACOBICI informed the Company that he will not accept the mandate of provisional member of the Directorate. Thus taking into consideration the non-fulfilment of the condition pertaining to the appointment of a Directorate member stipulated in Art. 153<sup>^</sup>12 para. (3) from the Companies Act no. 31/1990, republished, as subsequently amended and supplemented, the Board of Supervisors ascertains the vacancy for the position of member in the Company's Directorate starting with June 1<sup>st</sup>, 2017; the Directorate will carry out its activities with its four active members.

**June 13<sup>th</sup>, 2017** – the Board of Supervisors revokes the appointment of Luca Nicolae IACOBICI to the position of member of the Company's Directorate and ascertains the vacancy for the position of member in the Company's Directorate starting with June 1<sup>st</sup>, 2017.

**September 15<sup>th</sup>, 2017** – taking into account the termination, by reaching the final term, of the Directorate member mandates of CNTEE Transelectrica on September 16<sup>th</sup>, 2017, for the following persons: Georgeta-Corina Popescu, Constantin Văduva, Mircea-Toma Modran and Octavian Lohan pursuant to Art. 64<sup>2</sup> (1) from GEO no. 109/2011 on the corporate governance of public enterprises, as subsequently amended and supplemented, the Board of Supervisors appointed the following persons as provisional Directorate members:

- Georgeta-Corina POPESCU
- Andreea Georgiana FLOREA
- Dan-Valeriu ARDELEAN
- Florin TĂTARU

The mandate is granted for a 4-month period with the possibility of extension, for solid reasons, for another 2 months. The mandate duration shall not exceed the completion date of the selection procedure for the Directorate members of the National Power Grid Company "Transelectrica"–SA, pursuant to Art. 642 of GEO no. 109/2011, if the procedure will be completed within this interval.

Pursuant to Art. 18 (4) of the Articles of Association of the National Power Grid Company "Transelectrica"–SA, Georgeta – Corina POPESCU is appointed as Directorate Chairman, alternatively called Chief Executive Officer – "CEO" – of the Company. She will hold this position starting with the date in which her position as Directorate member enters into force.

The Directorate's provisional members, appointed on September 15<sup>th</sup>, 2017, signed the statement of acceptance of their mandated on September 15<sup>th</sup>, 2017, and their appointment entered into force on September 17<sup>th</sup>, 2017, as per their statements of acceptance of mandates.

At the meeting of January 15<sup>th</sup>, 2018, the Company's 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.

## Statement of the persons responsible

To the best of our knowledge, the stand-alone financial statements as of December 31st, 2017 have been issued according to the applicable accounting standards (International Financial Reporting Standards as approved by the European Union) and provide a correct and realistic view of CNTEE Transelectrica's assets, liabilities, financial position, profit and loss account, and the Directorate Report comprises accurate information true to real facts with respect to the Company's development and performance, as well as the description of the main risks and uncertainties specific to the activities performed.

### Directorate,

<b>Georgeta – Corina</b>	<b>Andreea Georgiana</b>	<b>Dan-Valeriu</b>	<b>Florin-Cristian</b>
<b>POPESCU</b>	<b>FLOREA</b>	<b>ARDELEAN</b>	<b>TĂTARU</b>
<b>Directorate Chairman</b>	<b>Directorate Member</b>	<b>Directorate Member</b>	<b>Directorate Member</b>

# Key figures

FINANCIAL		
3,060 mil lei	▲ 12% y/y	Revenues
304 mil lei	▼ 55% y/y	EBITDA
(8) mil lei	▼ n/a	EBIT
(48) mil lei	▼ n/a	Net loss

OPERATIONAL		
2.18 %	▼ 0.14pp y/y	OTC
59.8 TWh	▼ 1.5% y/y	Internal output
54.75 TWh	▲ 2.3% y/y	Charged energy
2.90 TWh	▼ 43% y/y	Net export*
56.9 TWh	▲ 2.3% y/y	Net load

HUMAN RESOURCES	
2,180	Average number of employees

\* net export is calculated as the balance of cumulated cross-border (export-import) physical flows across borders

Note: For the ease of reading and understanding the results, some figures presented in graphs and / or tables use mil. lei as a unit of measure and are rounded to this unit. This convention for presentation may result, in certain cases, in minor differences between the totals and totals obtained by summing up the component elements



# Important events

Jan

Transelectrica as Transmission System Operator is mandated to apply the technical and commercial safeguard measures according to art. 6, paragraph (3) of the Regulation on the establishment of the safeguard measures in crisis situations occurring in the functioning of NES approved by the ANRE Order no. 142/2014.

Feb



Mar

On March 5<sup>th</sup>, 2017, at 18:39, due to the failure of an equipment (breaker) at the 220/110 kV Hășdat station, there were several triggerings to equipments belonging to CNTEE Transelectrica SA in the Valea Jiului area (in stations 220 / 110 kV Hășdat, 220/110 kV Baru Mare and 220 kV Paroseni which led to the remaining without voltage (power?) of a part of Hunedoara County, where the coal mines belonging to the Hunedoara Energy Complex are supplied with electricity. Refueling all consumers was conducted very quickly, at 6:50 p.m.

Apr



May

▶ On May 30<sup>th</sup>, 2017, the OGM no.5 decision approved the composition of the temporary members of the Supervisory Board of CNTEE Transelectrica SA for a four-month term.

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

Jun

▶ Transelectrica SA participated at the third edition of the Energy Strategy Summit 2017, which brought together the most influential decision makers in the Romanian energy industry for an analysis of national, european and corporate strategies.

▶ ANRE publishes Order 48/2017 regarding the approval of the average tariff for the transport service, the tariff for the system service, the zonal tariffs related to the transport service and the regulated price for reactive electrical energy, practiced by the Company.

Jul

▶ On July 5<sup>th</sup>, 2017, Fitch grants the Company a stable BBB rating as a recognition of the Company's efforts to achieve operational excellence and for the responsible approach towards the business environment in which it operates.

▶ On July 28<sup>th</sup>, the upgrading works were completed at the 220/110 kV Tihău Station, which has as its main functions the transit of necessary power to the North Transylvanian area.

Aug

The European Commission approves the financing of the Crossbow project, in which Transelectrica is a partner together with the Romanian Energy Center. Transelectrica is a partner in this project with the Romanian Energy Center, coordinated by the Spanish Group ETRA Investigation Y Desarrollo SA, together with 8 Transmission System Operators (TSOs) from Central and South Eastern Europe

Sep

▶ CNTEE Transelectrica SA marked on the 26<sup>th</sup> of September 2017, the 50<sup>th</sup> anniversary of the commissioning of the 400/220/110 kV Gutinaș Station, one of the most important stations in Romania, which provides power to the whole northeast area of the country.

▶ The CEO of CNTEE Transelectrica SA, Ms. Georgeta-Corina Popescu, participated at the sixth edition of the CEEP Energy Summit in Tallinn (Estonia) on September 20<sup>th</sup> 2017. Together with CEEP members Mrs. Georgeta-Corina Popescu participated in discussions with Maroš Šefčovič, Vice-President of the European Commission, responsible for the Energy Union.

Oct

▶ On October 3<sup>rd</sup>, 2017 the Company signed with the system and transport operator in Bulgaria, Elektroenergien Sistem Operator - ESO - EAD, the Bilateral Agreement on Ensuring the Delivery of Emergency Transboundary Energy for Maintaining the Functional Safety of Power Systems in Romania and Bulgaria

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

Nov

▶ CNTEE Transelectrica SA participated at the first energy ministerial and energy conference in the framework of China - Central and Eastern Europe ("16 + 1") co-operation format, hosted by Romania.

▶ CNTEE Transelectrica SA started on Friday, November 17, 2017, the construction works of the "Stelian Gal" Energy Excellence Center in Sibiu, with an investment of about 5 million lei from own funds.

▶ On November 16<sup>th</sup> 2017, the Company inaugurated the 220/110/20 kV Transformer Electric Station in Turzii Câmpia (Cluj County), refurbished with an investment of about 42 million lei, from its own funds.

Dec

▶ On December 8<sup>th</sup>, 2017, the Company published the announcement of the first stage of consultation under the PICASSO (Platform for the International Coordination of Automated Frequency Restoration and Stable System Operation) project. The public consultation consists of two stages, the first stage ending at the end of the year 2017, the second stage being scheduled for mid-2018.



**Transelectrica<sup>®</sup>**

**Societate Administrată în Sistem Dualist**

# **Management Report**



# 1. Business model

## 1.1. Position on the electricity market

Transelectrica was established as Romanian legal person under GD no. 627/July 13<sup>th</sup>, 2000 on the reorganization of the National Electricity Company CONEL SA, published in Romania's Official Gazette 357/31.07.2000. This decision was issued in accordance with GD no. 138/2000 on the restructuring plan in the energy sector, which fully separated the electricity transmission and dispatch activity from the electricity generation, distribution and supply activities.

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

In accordance with the Electricity and Natural Gas Act no. 123/2012, as subsequently amended and supplemented, the electricity transmission activity constitutes a public service of national interest. Electricity transmission is performed by transmission and system operators which are legal persons certified by the competent authority according to legal provisions. The Power Transmission Grid (PTG) existent on Romanian territory is the public property of the Romanian State in terms of the assets assigned to Transelectrica

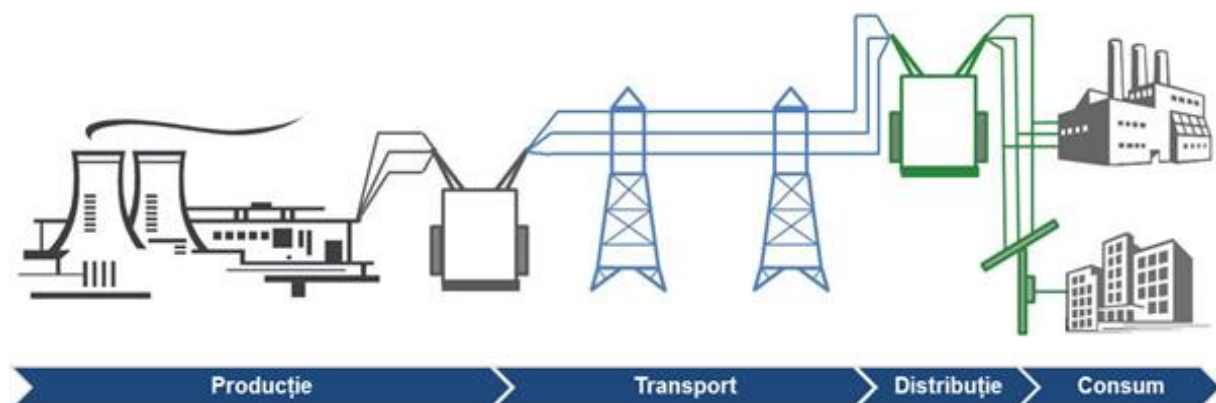
and they constitute returnable goods, according to the assignment nature and legal provisions.

In its capacity of transmission and system operator, Transelectrica operates according to License no. 161/2000 for the provision of electricity transmission and system services and for the management of the balancing market, amended by ANRE Order no. 802/2016.

The concession over the PTG and the land plots it is located on was granted for 49 years under concession agreement no. 1/29.06.2004, concluded between the Ministry of Economy in its capacity of grantor authority and CNTEE Transelectrica SA, in the capacity of grantee.

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

Figure 2: Electricity value chain



Transelectrica has the mission to provide the public service of electricity transmission while maintaining the operational safety of the national power system under non-discriminatory access conditions for all users; by developing the electricity transmission infrastructure, the Company becomes an active participant to the sustainable development of the national power system and facilitates the operation and integration of energy markets.

The key role of Transelectrica is of transmission and system operator (TSO), together with the roles of balancing market administrator, metering operator as well as capacity allocation operator on interconnection lines.

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

The activities of Transelectrica are regulated under primary legislation (the national framework being Law no. 123/2012, as subsequently amended and supplemented, while the European one being Directive 2009/72/EC and Regulation no. 714/2009) and secondary legislation issued by ANRE - substantiated by licenses, establishment permits, tariff-setting methodologies (ceiling type for transmission and cost plus for system operation, tariffs, framework agreements, procedures and others).

Business profitability comes from the return of the asset regulatory base, which depends on

the regulated rate of return and the asset regulatory base ("ARB").

The business model corresponds to the standard profile of a TSO and is designed uniformly at European level under the European strategy and legislation, applied in all community countries and transposed as such in the national legal framework.

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

Today, pursuant to ANRE Order no. 164/07.12.2015 published in the JO no. 908/08.12.2015, Transelectrica has been finally certified as transmission and system operator of the national power system and it operates in accordance with the ownership unbundling model.

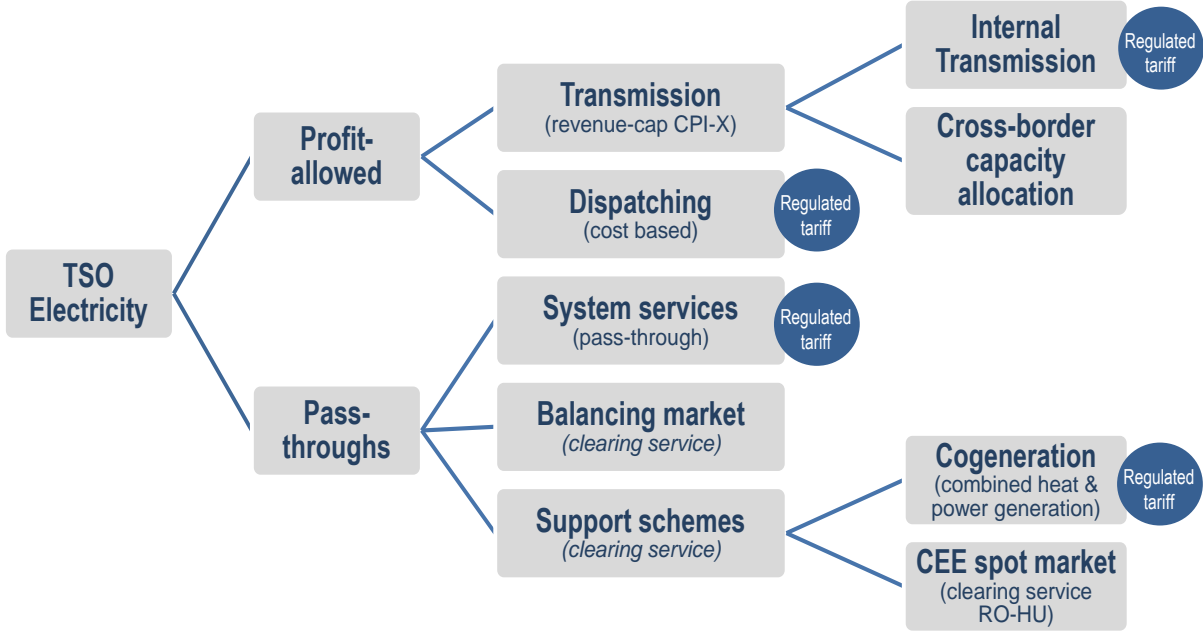
The notification with respect to such certification was submitted to the European Union that published it in the EU Journal on 08.01.2016, in accordance with Article 10 (2) of Directive 2009/72/EC.

In accordance with the certification conditions as transmission and system operator as per the ownership unbundling model, the Company's shareholders representing at least 5% of the Company's share capital will exercise their rights ensuing from Company shares while observing the provisions of Law no. 123/2012 regarding the non-simultaneous exercise, directly or indirectly, of control or right over an economic operator that performs any of the generation or supply activities.

1.2. Portfolio of activities and tariff-setting model

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

Figure 3: Portfolio of activities



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

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

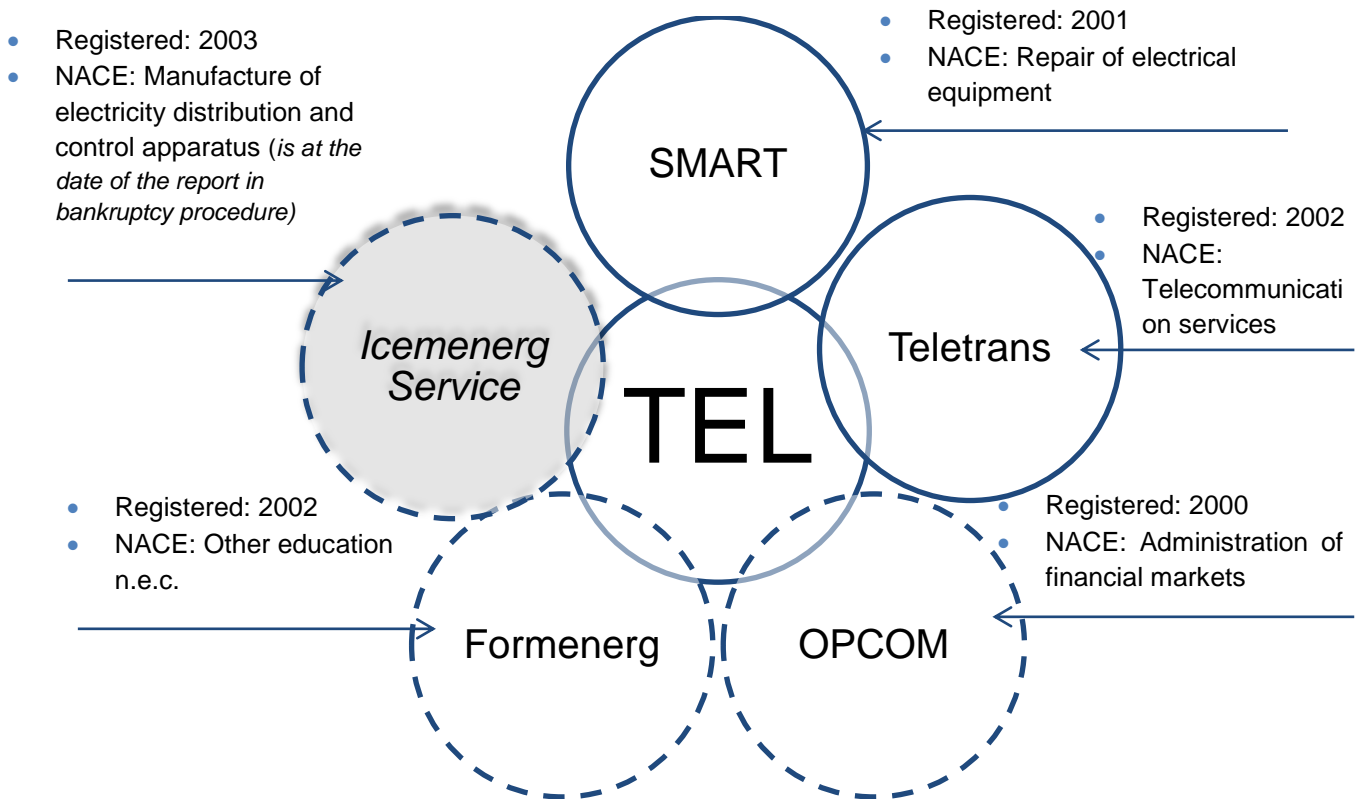
ANRE, estimated in order to fully cover the costs associated to the support scheme administration.

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

Allowed profit activities	
Transmission	<p><b>Domestic transmission</b></p> <ul style="list-style-type: none"> <li>• ANRE regulated activity;</li> <li>• Tariff reviewed and updated annually;</li> <li>• The tariff associated to the transmission activities is determined using default settings for multi-annual periods (usually 5 years) according to a revenue cap incentive model;</li> <li>• The revenue cap model enables recovering operational and investment costs as well as obtaining the financial return dedicated to the proper remuneration of financiers, in accordance with the general risk of regulated activities performed by Transelectrica;</li> <li>• Certain cost components included in the tariff calculation are capped at levels preset by ANRE (according to certain operational efficiency requirements), the superior efficiencies obtained by Transelectrica being partially retained by the Company using a distribution mechanism of additional profit with the users of transmission services.</li> </ul>
	<p><b>Interconnection management</b></p> <ul style="list-style-type: none"> <li>• This is an activity related to cross-border available transfer capacities allocation along interconnection lines with the power systems of neighboring countries;</li> <li>• The allocation mechanism relies on a competitive system using the price offered by the participants on the energy market for the available cross-border transmission capacity, applicable in cases when the capacity demand exceeds the available level offered on the market.</li> <li>•</li> </ul>
Functional system services	<ul style="list-style-type: none"> <li>• ANRE regulated activity;</li> <li>• Dispatch operations of the NPS in order to maintain the operational safety level of the system (the system is maintained under stable output-consumption balance, while also keeping system parameters within preset margins that should provide a safe and stable operation of the NPS, operational scheduling to cover load) using the technical operational management infrastructure of the NPS, which is the EMS – SCADA system as well as the telecommunication, remote control, protection and control systems;</li> <li>• The tariff for functional system services is set annually beforehand by ANRE, using a cost-plus model that enables recovering operational and investment costs as well as obtaining the financial return dedicated to the proper remuneration of financiers, in accordance with the general risk of regulated activities performed by Transelectrica.</li> </ul>

Zero profit activities	
Technological system services	<ul style="list-style-type: none"> <li>• ANRE regulated activity;</li> <li>• Planning and procurement of power reserves necessary for the permanent provision of the output/load balance in order to ensure the operational safety of the NPS, from producers or consumers that may be disconnected;</li> <li>• The tariff for the technological system services is annually set beforehand by ANRE using a zero-profit model ("pass-through") designed to fully recover the costs necessary to procure system reserves, with the possibility to keep a part of potential savings obtained when procuring power reserves under competitive terms.</li> </ul>
Balancing market	<ul style="list-style-type: none"> <li>• The market administration activity by which the generation and the load are balanced in real time;</li> <li>• The procurement of control power from dispatchable generating units and full recovery of balancing costs from balancing responsible parties;</li> <li>• The recovery of costs is performed under zero-profit regime.</li> <li>•</li> </ul>
Other activities	<p><b>Cogeneration</b></p> <ul style="list-style-type: none"> <li>• The administration of the support scheme for promoting high-efficiency cogeneration. The purpose of this support scheme is to promote highly efficient systems cogenerating heat and power, with the advantage of a more environmentally friendly electricity production;</li> <li>• The role of Transelectrica under the support scheme is to collect the contribution from the suppliers of electricity consumers and to pay the bonus to the qualified producers of electricity and heat under cogeneration;</li> <li>• Costs are recovered under a zero-profit regime except for the administration costs recognized by ANRE.</li> </ul> <p><b>Shipping agent of the Romania-Hungary connection on the regional electricity market</b></p> <ul style="list-style-type: none"> <li>• The compensation-settlement activity (shipping agent role) on the regional electricity market (price coupled market in the central-east European area, including the markets from: The Czech Republic, Slovakia, Hungary, Romania) in the day-ahead trading horizon (day-ahead market). Transelectrica carries out the financial clearing function on the Hungarian border, an important part in the settlement chain of energy traded on the wholesale market between Romania and Hungary (export and import).</li> </ul>

## 2. Group structure



On the date of this report, Transelectrica has four subsidiaries in its structure; they are Romanian legal persons, organized as joint stock companies where the Company is the sole shareholder, namely: OPCOM<sup>4</sup>, Formenerg, Teletrans, and Icemenerg Service (is at the date of the report in bankruptcy procedure).

In the case of Smart, following the increase of its share capital on December 23<sup>rd</sup>, 2014 by the Management Board of Smart with the value of land plots for which certificates authenticating the

ownership rights have been previously obtained, the Company became the major shareholder with a 70% shareholding of the subsidiary's share capital.

Among the Company's subsidiaries, only Smart and Teletrans are included in the Group's financial consolidation perimeter. Formenerg and Icemenerg-Service have not been taken into consideration for the consolidation because according to the applicable accounting legislation, the impact of their activities is considered as being insignificant for the purpose of the consolidation, while OPCOM is subject to ANRE regulations and holds an independent position on the energy market, and therefore Transelectrica does not have control over it.

The subsidiaries participating to the consolidation perimeter (Smart and Teletrans) began procedures with a view to implement the corporative governance principles, in accordance with the regulations of GEO no. 109/2011 on the corporate governance of public enterprises.

<sup>4</sup> According to GEO no. 86/2014, as subsequently amended and supplemented, the Ministry of Economy is mandated to initiate and approve, as the case may be, all operations and steps necessary in order to transfer the shares held by the National Power Grid Company "Transelectrica" - S.A. in the Company "Gas and Electricity Market Operator OPCOM" - S.A. and the Company for Training Romanian Power Engineers FORMENERG - S.A. to the state private property and the administration of the Ministry of Economy, Trade and Tourism, while observing the applicable legal provisions.



Thus, the recruited managers will be made responsible and remunerated according to the administration and management plans (which should include optimum administration/management structures) as provided in GEO no. 109/2011. By implementing the corporate governance principles, the Company intends to increase the efficiency of the two Subsidiaries' activities.

## SMART



The main object of activity of the SC SMART SA subsidiary is reviewing and repairing of live apparatus and equipment, transformers and autotransformers, as well as the remedy of incidents in electric installations and micro-production of electric equipment. The Company has 8 subsidiaries with no legal personality, situated in the same locations as Transelectrica's branches.

- As of December 31<sup>st</sup>, 2017, the share capital amounts to 55,036 thousand lei, of which 38,528 thousand lei is subscribed and fully paid up by Transelectrica. The results of SMART are consolidated with the Company's financial results.
- According to letter no. 165/13.01.2015 (registered at Transelectrica under no. 1552/14.01.2015) transmitted by the subsidiary, starting with 30.12.2014, when the capital had been increased by contribution in kind with the value of the land plots for which certificates authenticating the ownership rights were obtained, the shareholder structure is the following:
  - CNTEE Transelectrica SA – 70.005% - 3,852,860 shares
  - The Romanian State through the Ministry of Economy – 29.995% - 1,650,770 shares.

## TELETRANS



SC Teletrans SA was established under Decision no. 13/04.12.2002 of Transelectrica's General Assembly of Shareholders, pursuant to Law no. 31/1990 and the Orders no. 3098 and no. 3101 of 23.10.2002 issued by the Ministry of Industry and Trade.

- TELETRANS shares are 100% held by Transelectrica.
- Based on the Articles of Association and the applicable legislation, Teletrans holds the ANCOM certificate for networks or electronic communications service provider since 2002 (GEO no. 679/2002), allowing it the right to provide the following electronic communications services:
  - Public electronic communications networks (starting with November 11<sup>th</sup>, 2004);
  - Publicly available electronic communications services: (i) Leased lines services and (ii) Electronic communications services, other than telephony and leased lines (starting with July 1<sup>st</sup>, 2003);
  - Private electronic communications networks and services (starting with January 15<sup>th</sup>, 2003).
  - The TELETRANS staff also holds certifications relevant for the operation and management of IT&C systems dedicated to critical infrastructures.

As of December 31<sup>st</sup>, 2017, the share capital amounts to 6,874 thousand lei, Transelectrica being sole shareholder. The results of Teletrans are consolidated with the Company's financial results.

## FORMENERG



The SC FORMENERG SA subsidiary is a company whose main object of activity is training personnel from the energy sector. Among its clients are Transelectrica, GDF SUEZ Energy Romania, Romgaz, Transgaz Medias, Nuclearelectrica and Hidroelectrica.

The company provides a wide range of short-term courses (a week or two) in fields such as public procurement, human resources, finance-accounting, marketing and communication, operation, maintenance, energy strategy, natural gas, IT, legislation, licensing of electricians etc.

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

## ICEMENERG – SERVICE

On the date of June 9th 2017, the Bucharest Court of Appeal, Civil Division VII, ordered the bankruptcy procedure through the simplified procedure of the debtor, ICEMENERG SERVICE - SA Subsidiary, designating Solvendi SPRL as a temporary liquidator.

The Company recorded an impairment adjustment in the amount of 493 thousand lei in 2016, for the shares held at SC ICEMENERG SERVICE SA

The Icemenerg Service SA subsidiary focuses on the design, manufacture and distribution of metering, running and control apparatus meant for the power system, being ISO 9001 and IQ NET certified by SRAC ROMANIA (licensed by ANRE).

The client portfolio includes the big companies in the industry such as Electrica, Transelectrica, Nuclearelectrica, Termoelectrica and Hidroelectrica.

- The share capital amounts to 493 thousand lei, fully paid up on August 22<sup>nd</sup>, 2003, represented by 49,300 shares of 10 lei nominal value each.
- By Order no. 855/10.12.2004 of the Minister of Economy and Trade (on instituting the special administration procedure and financial supervision), starting with 23.12.2004 the special administration and financial supervision procedure was instituted in the SC ICEMENERG –

SERVICE SA subsidiary during the privatization period of ICEMENERG – SERVICE SA, subsidiary of Transelectrica, with a view to determine the manner of administration and management as well as the measures to be taken in order to expedite the company's privatization process.

- Decision no. 1/28.02.2017 of the General Assembly of Shareholders approves the default of the company in simplified form.

## OPCOM



OPCOM was established under GD no. 627/2000 on the reorganization of the National Electricity Company SA as subsidiary whose sole shareholder is Transelectrica.

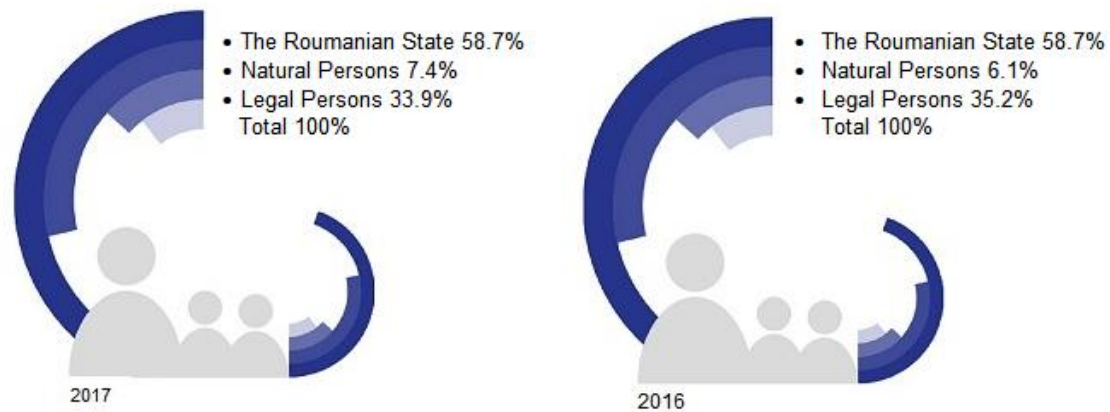
- As of December 31<sup>st</sup>, 2017, the share capital amounts to 30,687 thousand lei.
- The main activities of OPCOM are: organizing, managing and supervising the centralized electricity markets as well as managing and supervising of the centralized market from the natural gas sector.
- Transelectrica does not exercise actual direct control over the decision making mechanisms of OPCOM, whose administration is performed according to ANRE regulations.



### 3. Transelectrica on the capital market

#### 3.1. Shareholding structure

Figure 4: Development of the shareholders structure in 2017



As of December 31st, 2017, the position of the Company's shareholders includes the holding of DEDEMAN SRL of 5.72% (at December 31st, 2016 the ownership was below 5%).

#### 3.2. Share price evolution

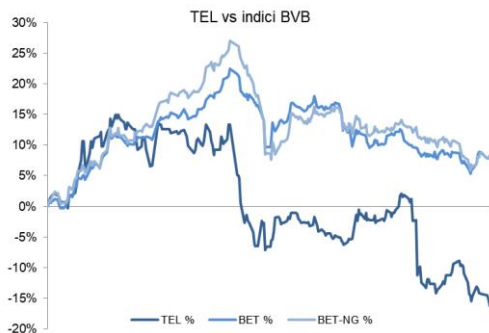
2016 has been an important year for Romania's capital market. On September 29<sup>th</sup>, 2016, the decision of FTSE Russell was published, according to which Romania was included on the list of countries with substantial potential to transfer to the "emerging market" status from that of "frontier market" it now has. The decision was taken after the amendments and changes made both in the capital market legislation and also in the regulations specific to this market, adding the conjugated efforts made by NBR, BSE, ASF, PFM and the Central Depository. To this effect, investors' interest is expected to grow, as they usually avoided this market in favor of others.

Throughout 2017, the Transelectrica share (TEL symbol) showed a relatively stable evolution, with price fluctuations ranging from 24.55 lei/share to 33.7 Lei – the maximum being reached on February 27<sup>th</sup>, 2017 and March 1<sup>st</sup>, 2017. Compared to the overall stock market performance (BET index), and also to

the companies constituting the BET-NG index, TEL shares showed a superior performance in the first quarter of the year, while the period between the second quarter and the end of the year showed an inferior - even negative - performance compared to the BSE indexes, as a result of the market's reaction to the lowering of the Company's results, which came as a result of the two-step reduction of the regulated transmission tariff: on July 1<sup>st</sup>, 2016 and July 1<sup>st</sup>, 2017.

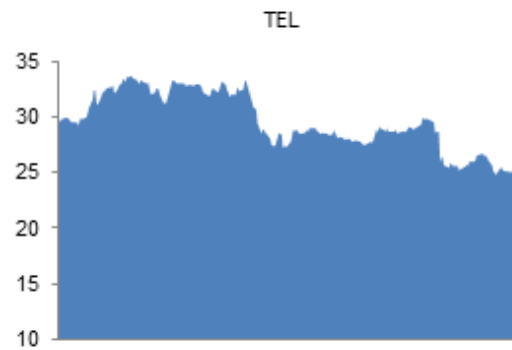
Transelectrica is also included in the local stock exchange indexes (BET, BET-XT, BET-NG, BET Plus, BET-TR, BET- BK, ROTX) and in the international indexes DowJones Wilshire Global Indexes (Dow Jones Wilshire Global Total Market Index SM, Dow Jones Wilshire Romania Index SM, Dow Jones Wilshire Electricity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

Figure 5: Share price development to BET and BET-NG indexes in 2017



The total return for shareholders (TSR) for 2017 amounted to -0.22% as a result of the

Figure 6: Share price development in 2017



share price reduction at year-end.

Table 1: Stock-exchange information 2015-2017

Indicator	31.12.2017	31.12.2016	31.12.2015
Number of shares	73,303,142	73,303,142	73,303,142
Stock exchange capitalization (mil lei)	1,800	2,140	2,137
Stock exchange capitalization (mill euro)	386	471	472
Maximum price (lei/share)	33.7	31.15	32.47
Minimum price (lei/share)	24.55	26.40	25.19
Price at the beginning of the year (lei/share)	29.2	29.15	29.27
Price at year-end (lei/share)	24.55	29.20	29.15
Profit per share (lei/share)	0.65	3.72	4.91
PER	(37.53)	7.86	5.93
P/BV	0.66	0.69	0.71
Gross dividend per share (lei)	-	2.257	2.65
Special gross dividend per share (lei)*	2.330	-	-
Dividend return**%	-	7.73	9.09
Free Float %	41.31	41.31	41.31

\*as per allocation of Other reserves

\*\*dividend return proposed for approval in the General Assembly of Shareholders was calculated using the most recent share price of December 31<sup>st</sup>, each year.

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

### 3.3. Bonds

In 2017, the fourth interest coupon was paid associated to the inaugural bond emission of 2013. This was the first major financing transaction on the capital market using credit instruments (emission of unsecured bonds amounting to 200 mil lei with fixed interest, five years maturity).

Introducing bonds in the financing mix had beneficial effects in the mid- and long-run,

diversifying the financing options and thus reducing the credit restriction risk along traditional channels (for instance by reaching the maximum credit allocations, in case of relation banks).

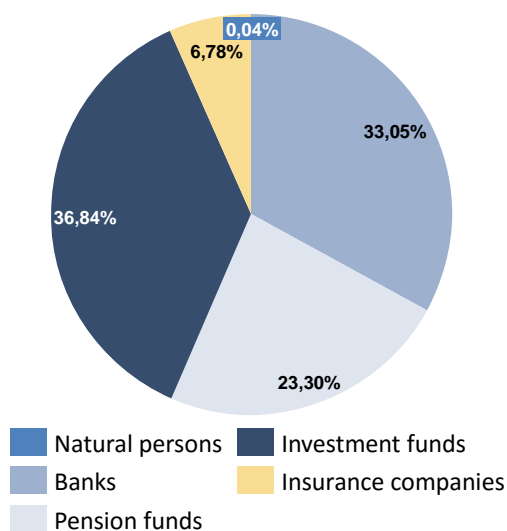
Starting with January 16<sup>th</sup>, 2014, corporate TEL bonds have been traded on the Bucharest Stock Exchange (BSE), Debt Securities section – 3<sup>rd</sup> category - Corporate bonds, symbol TEL18.

Table 2: Main characteristics of the bonds issued by Transelectrica

Symbol:	TEL18
Type:	registered, dematerialized unsecured bonds
Number of bonds:	20,000
Nominal value:	10,000 lei
Total value of issue:	200,000,000 lei
Interest rate:	6.1%
Interest payment:	Annually.
Interest payment dates:	19.12.2014; 21.12.2015; 19.12.2016; 19.12.2017; 19.12.2018
Maturity date:	19.12.2018

The structure of corporate bond holders as of December 5<sup>th</sup>, 2017, the reference date for the coupon payment, was as follows:

Figure 7: Structure of corporate bond holders as of December 31st, 2017



During the fourth accumulation year, the interest associated to the bonds was paid in accordance with the Offer Prospectus and was made by Banca Comercială Română SA, in its capacity of payment agent, on December 19<sup>th</sup>, 2017 to the holders of Transelectrica bonds registered on the reference date December 5<sup>th</sup>, 2017 in the Register of corporate bond holders registered with the Central Depository S.A.

### 3.4. Dividends

In 2017, the value of shareholders' dividends distributed from the profit of 2016 amounted to 165 mil lei. 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% (pursuant to the Government approved Memorandum) and in line with the dividends distribution policy of CNTEE Transelectrica SA.

On the request of the shareholder the Romanian State, on the grounds of Decision no. 11/October 16<sup>th</sup>, 2017 of the General Assembly of Shareholders, 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".

The following table illustrates the dividend distribution of the Company's accounting profit in the 2015-2017 timeframe:

Table 3: Profit distribution 2015-2017

Indicator		2017	2016	2015
Net result	mil lei	(48)	175	360
Distributed dividend	mil lei	-	336	194
Gross distribution ratio*	%	-	90	75
Actual distribution ratio**	%	-	124	54.0
Gross dividend per share	lei	-	2.257	2.650
Special dividend per share***	lei	171	-	-

\* The gross distribution ratio was approved by Decision of the General Assembly of Shareholders

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

\*\*\* Special dividend accordingly with GD 29/2017

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

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

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

### 3.5. Rating

On May 23<sup>rd</sup>, 2017, the credit rating agency Moody's Investors Service published the updated credit opinion by which it assessed Transelectrica's current and future capacity to carry out its obligations to creditors.

The current credit opinion maintains the Company's rating at the last year's level, namely Ba1.

The Company's rating remains only one step below Romania's country rating, thus recognizing the improved financial performance and solid operational results of Thus, the Agency's assessment between 2015 and 2017 mirror its positive appreciation for the

the Company and ensuring future financing premises under optimal cost conditions for the good performance of the investments undertaken for the third regulatory period.

This action comes as a continuation of the improvement of the rating communicated by Moody's and a decisive factor was starting the optimization process of the financing structure by introducing bonds denominated in lei in the financing mix. The inaugural emission achieved both an extended maturity of resources and a diminished currency risk.

gradual improvement of Transelectrica's financial profile.

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 stable 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 which is one step above the country's rating (BBB-/stable outlook).

Table 4: Transelectrica Rating

	2017	2016	2015
Moody's Investors Service	Ba1 stable	Ba1 stable	Ba2 stable
Fitch	BBB stable	-	-

### 3.6. Investor relations

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

The diversity of shareholders and the presence in the main indexes published by BSE emphasize exigencies with regards to transparency, information relevance and its quick dissemination, as well as maintaining an uninterrupted dialogue with the investor public.

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

The Company also keeps in touch with investors by direct meetings periodically organized by the company to present its results, direct meetings upon request from investors or their brokers and

similar direct meetings when the company participates to events dedicated to individual or institutional investors, organized by the Bucharest Stock Exchange or by the financial investment service companies.

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

Throughout 2017, Transelectrica participated to conferences dedicated to individual investors, events dedicated to institutional investors and direct meetings organized upon request of certain investors and/or brokers. Overall, Transelectrica attended 5 international conferences and participated in several direct meetings with investors.

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

## 4. Risk management

### 4.1. Risk management policy

The Integrated Risk Management System was implemented in the Company as provided in the strategic requirements for the operational safety and continuity of the NPS, which represents a fundamental condition for a sound internal managerial control. The Company addresses risk management in a proactive manner, thus the Directorate reasonably ensures that objectives will be achieved by managing possible threats. To this effect, potential losses are detected and managed before the occurrence of events of likely negative impact, with the anticipated preparation of the technical, operational and financial solutions specific for mitigating or counteracting these possible losses.

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

- Order no. 400/2015 of the Secretary General of the Government (OSGG) amended and supplemented by OSGG no. 200/2016 and OSGG no. 530/2016 approving the *Code of internal/managerial control of public entities*
- The regulator's requirements and other requirements derived from its capacity as Company listed on the Bucharest Stock Exchange or required by rating agencies or auditors

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

- Organizing, designing, planning, structuring activities, communication including business continuity measures after the occurrence of a risk. Procedures have also been executed taking into account the principles to be complied with by all employees and labor security and safety measures have been enhanced with a view to mitigate risks;
- Insurance contracts aiming at risk transfer; bank letters of guarantee, financial securities required by Transelectrica's counterparties; financial solutions including share offers, bond emissions and other instruments provided on the capital, insurance and other financial markets.

As part of the Risk Management activities, the following have been achieved in 2017:

- updating the Monitoring commission components in order to implement the Internal/Managerial Control System and the Team managing risks Company-wide;
- measures related to ensuring the organizational and procedural framework undertaken by the heads of organizational units in order to enforce the internal control and risk monitoring measures;
- guidance and control measures.

In 2017, the *Company-wide Risk Register - 2018* was completed and approved by the Directorate, aiming at minimizing the effects of risks the Company is exposed to related to its performance. The *Risk Register* was drafted in accordance with the requirements of Standard 8 *Risk management* from OSGG no. 400/2015 and OSGG no. 200/2016.

The Directorate also completed and approved the *Plan to implement control measures for 2018*. For the implementation of the Internal/Managerial Control System, the Monitoring commission annually analyzes and prioritizes significant risks that might negatively impact the general objectives of CNTEE Transelectrica SA. For 2018, 12 Company-wide significant risks were synthesized and hierarchically classified, which might negatively



impact the general objectives of Transelectrica's functioning.

The Audit Committee's agenda included the risk range to which Company is exposed to. The size and complexity of processes it is involved in, the dynamics of external factors, the cyber threats, the complexity and duration of investment projects, the changes generated by environmental factors over the good operation of the PTG according to the dynamics of changes on the energy markets to contractual partners of volatile financial performance - all these factors provide a highly complex picture with potential risk and threat areas for the Company.

In 2017, the Audit committee was actively involved in the reevaluation of the manner in which such risks are identified and assessed for the functional areas of the Company. It has also analyzed the measures plan prepared in order to mitigate and monitor risks and provided recommendations pertaining to the correct identification of risks, their potential technical and functional but also financial impact over the Company's results.

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

The Directorate aims at preserving the continuity of strategic functions as transmission and system operator within the NPS of Romania, even under the most unfavorable circumstances.

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

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

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

impact they might have over general and specific objectives;

- maintaining a safe working environment for employees;
- operating the equipment and installations under safe conditions with no dangers for third parties or environmental impacts;
- implementing the optimal risk control measures.

The main objectives established include:

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

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

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

#### **4.3. Main risks identified**

Risk management is integral part of the Company's management and decision making processes, contributing to a higher degree of objective achievement by better planning taking into account the risks and by measures hedging and controlling the potential negative effects over the Company's financial performance owed



to the unpredictability of the economic and financial environment.

During the upgrading process of the *Risk Register* the level of risk exposure was observed to be the same as the previous year and the residual risks were generally kept at the same level compared to the previous assessment. The risks identified in previous years are kept under control accordingly. Several risks have been reformulated in the meaning of densification, in order to better match them with Transelectrica's objectives.

**4.3.1. Technical and operational risks**

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

- risks related to the NPS operation;
- malfunctions of the telecommunication systems, of monitoring, metering and operating platforms of the NPS;
- improper execution of preventive and corrective maintenance;
- malfunctions of the EMS/SCADA system;
- achievement below planned quantitative and qualitative levels of the Annual Investment Program.

**4.3.2. Financial risks**

In terms of financial risk management, the risks faced by the Company with the most significant impacts over financial results come from the financial instruments: interest rate risk, currency

risk, credit risk and liquidity risk. Another risk that might impact the Company's performance is associated to the provisions of financing agreements.

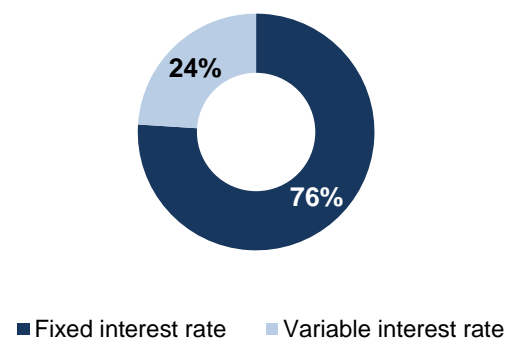
The main risks the Company can be faced with while carrying out its activities are summarized further:

**4.3.2.1. Interest rate risk**

The Company has concluded (short and long-term) credit agreement to finance investment programs and to sustain operational activities.

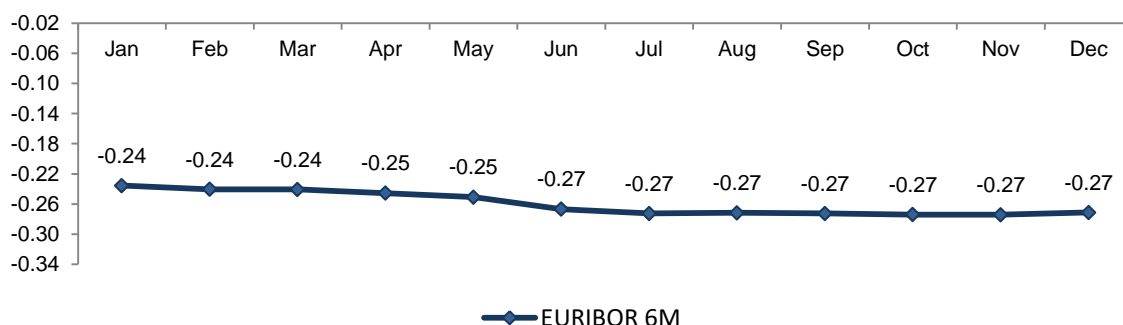
The variable component of the interest rate associated to the credits drawn by the Company can influence both the cash flows from operational activities and profitability, if the values of international indexes based on which the interest rate is calculated on are significantly modified.

Figure 8: Debt structure by types of interest as of December 31st, 2017



During 2017, the 6-month EURIBOR registered a historically minimum value reaching -0.22% (at the end of 2016) and -0.27% at the end of 2017.

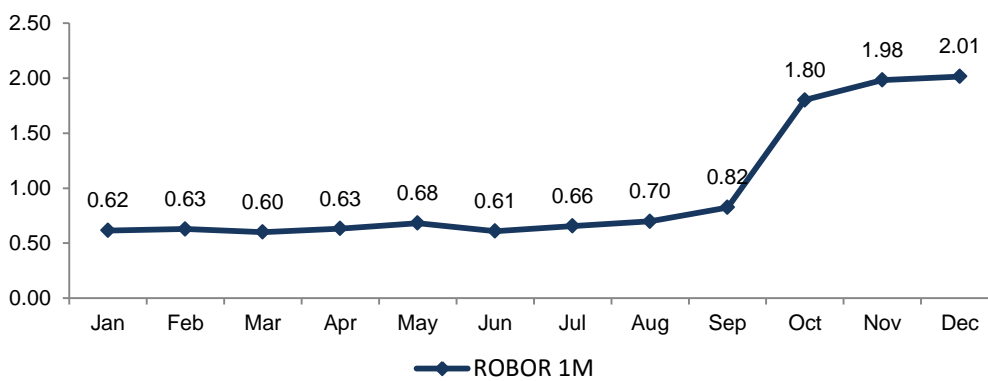
Figure 9: EURIBOR 6M (%)



On the national banking market, one-month ROBOR shows an ascending trend, accentuated in the last quarter of the year. This ascension occurred under the conditions of intensive containment of the structural liquidity surplus on the monetary market, under the simultaneous action of the main autonomous liquidity factors. A big importance was the change in the evolution of the lei account

balance of the Treasury and the operations of non-residents on the local financial market. The increase of ROBOR is also caused by the exchange rate, which rose due to the fiscal policy instability. This determined the decrease of investors' trust, taking into consideration the context of depreciation of other regional currencies.

Figure 10: ROBOR 1M

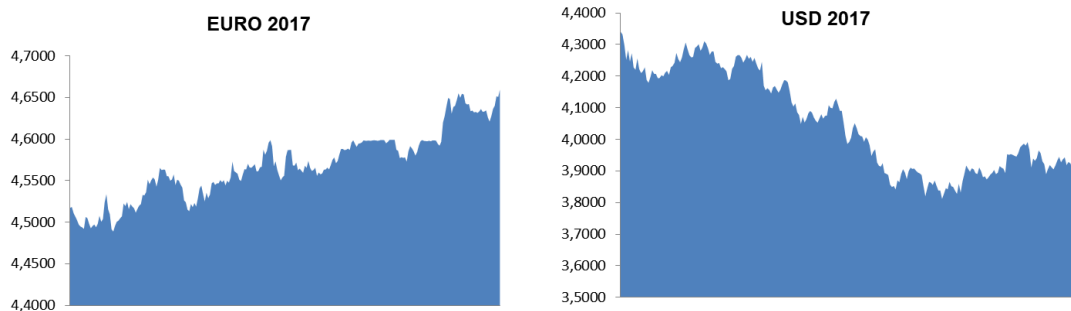


**4.3.2.2. Exchange rate risk**

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

Throughout 2017, there were periods of higher volatility with time intervals of appreciation of the leu, followed by periods of unfavorable fluctuations against the background of external events. From the beginning of the year, the national currency depreciated against the euro by 2.98% and appreciated against the dollar by 7.58%.

Figure 11: Development of exchange rates



Consequently, in 2017 the revenues from exchange rates differences amounted to 11.43 mil lei, while expenses amounted to 18.66 mil lei.

The general impact of these exchange rate differences is a 7.23 mil lei loss.

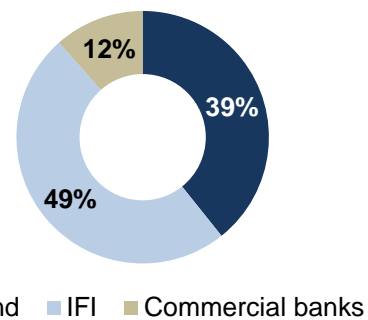
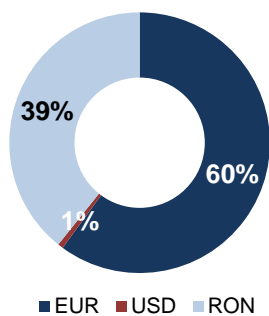
Table 5: Total exposure in the financial position statement

mil. lei	Total	RON	EUR	USD	JPY
<b>December 31<sup>st</sup>, 2017</b> (mil lei equivalent)	509	200	306	3	509
<b>December 31<sup>st</sup>, 2016</b> (mil lei equivalent)	636	200	425	11	636

In 2017, the bank debt decreased from 636 mil lei to 509 mil lei against the background of principal payments under contracted credits, as well as the Company's reduced indebtedness. Credits denominated in EUR remain further at a high level of 60% in the total credits, while credits in lei are situated at 39%, showing a 25% increase compared to last year.

Figure 13: Debt structure by types of financial institutions as of December 31st, 2017

Figure 12: Debt structure by types of currency as of December 31st, 2017



**4.3.2.3 Risk associated to the provisions from financing agreements**

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

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

**4.3.2.4 Liquidity risk**

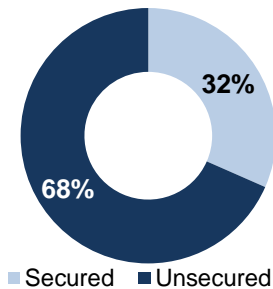
Due to the liquidity risk, the Company might be faced with difficulties when fulfilling the obligations associated to financial liabilities settled in cash or by transfer of other financial assets. The provisions from the Company's financing agreements can limit its financial and operational flexibility.

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

The liquidity risk is diminished by the introduction of the Company's financing mix of unsecured instruments (unsecured corporate bonds and loans offered by international

financial institutions), which significantly reduce the dependence on the limitations and constraints of the banking environment and the need to secure commercial credits.

Figure 14: Debt structure by types of financial institutions as of December 31st, 2017



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

**4.3.2.5 Credit risk**

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

Managing the counterparty risk results from a systematic approach of the Company's management in the context of external factors influencing the risk reduction: decentralization of the energy sector where generation, transmission, distribution and supply are distinct activities, and the client interface is provided by the supplier; electricity is traded on two market segments in Romania: the regulated market and the competitive market.

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

creditworthiness, as well as insurance contractual measures.

The company has enforced a series of policies that ensure that the sale of services is performed towards customers with an appropriate creditworthiness or that their obligation to provide financial guarantees covering the default risk is included in their commercial contracts. The value of receivables, net of the adjustments for value losses and including guarantees, represents the maximum amount exposed at the risk of collection.

The risk of not collecting these receivables is relatively limited given the structure of the clients' portfolio, the monitoring of the receivables duly receipt and other measures taken in order to increase the collection degree, considering the contractual framework and the applicable ANRE regulations.

**4.3.2.6 Risk of not collecting the amounts constituted as guarantee within the investment projects**

In 2017, a new risk was identified as a result of the fact that some contractors can no longer continue to perform certain projects. This risk is substantiated by not collecting the amounts resulted from the enforcement of underlying guarantee instruments for guaranteeing the down payments received by the contractors within the investment projects.

The main cause for this type of risk results from the existence of several banking institutions or insurance companies which offer guarantee services without having the financial capacity to respect the obligations undertaken with the guarantee instruments issued.

The strategy adopted Company-wide is to claim damages from the contractor and to sue the company who issued the guarantee instrument and did not reimburse the Company for the amount requested by the enforcement of the guarantee instrument.

**4.3.3 Strategic risks associated with the regulatory framework**

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

#### 4.3.3.1 Tariff (price) risk associated with the regulatory framework

Taking into account the position of regulated natural monopoly, the price risk associated with the regulatory framework is an important factor which might influence the Company's activities, having a negative impact on the Company's operational results, financial position and perspectives.

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

In the period between 2014 and 2017, a substantial improvement was noticed both in the recovery capacity of costs (in particular the own technological consumption) and of the transparency of regulatory acts (the tariff calculation mode and the communication between the Company and the regulator), with noticeable effects on the financial performance. Nevertheless, the regulatory risk is still maintained by the existence of a historical risk marked by unfavorable regulatory conditions and an insufficient degree of transparency in tariff setting.

The improved regulatory framework of the transmission tariff, mainly with regards to cost recovery, has been the main factor in the improvement of the Company's credit rating in 2017 (BBB as per releases of the Fitch rating agency, one step above the rating obtained by the Romanian Government).

#### 4.3.3.2 Volume risk

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

The current tariff-setting system is monomial (with only one billing component: energy) and

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

ANRE launched a project to simulate the effects of introducing the binomial tariff system (which provides two billing components: energy and power). This simulation is planned for 2017- 2018, while the binomial tariff-setting system is to become effective in 2019.

Throughout 2017, between January 1<sup>st</sup> and October 31<sup>st</sup>, the simulation was carried out according to ANRE Decision no. 71/2017 between the TSO and the distribution operators.

The tariff system considered for implementation provides the important benefit of correlation between the cost base structure (fixed vs. variable costs) and the structure of the mechanism generating revenues (fixed vs. variable revenues). The volume risk will be

substantially subdued by the implementation of the binomial tariff.

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

#### 4.3.4 Network codes implementation risk

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

This risk may be substantiated in unfavorable reports from ENTSO-E and ACER with respect to the Company's implementation of certain provisions from network codes. Later on, depending on the seriousness of such nonconformity and the lack of proper feedback, the European Commission may initiate infringement actions which may translate into penalties of 10% from the Company's turnover.

#### 4.3.5 Risks associated with the unpredictability of Energy Markets

- the price risk owed to the energy market might lead to cost rises associated to OTC.
- counterparty risk - the risk of not collecting receivables (a client's incapacity or refusal to carry out its contractual obligations);
- forecast risk - a hazard risk related to external events (sudden changes in the atmospheric conditions or in PTG circumstances), thus determining the increase of OTC.

#### 4.3.6 Legality risks resulting from changes in the legal, political, regulatory framework, the social

#### environment or the Company's internal policies

- failure to comply with legal conditions, fraud risk;
- lack of defense of the Company's legitimate rights and interests;
- distortion: failure to notify about noncompliance with legality;
- risks associated to licenses, contractual risks, including fines from authorities or compensating payments;
- disputes;
- improper execution of user connection processes to public electricity grids;
- failure to comply with the regulatory or contractual terms, mainly determined by difficulties to obtain rights over land plots.

#### 4.3.7 Security risks

- risks associated with the security and protection of ICN/ICE critical infrastructures;
- deficiencies in the management of emergency situations and in the administration, application, update and testing of the Emergency response under the Business Continuity Plan;
- risks associated with the security of classified information: improper access and movement in the Company's security areas;

#### 4.3.8 Personnel risks

- deficiencies in hiring activities, the relations with the Social Partner, the administration, compensation and provisions of benefits, professional training and development;
- impacts over the health condition and security of personnel;
- strikes or other forms of interruption of activities;
- failure to complete, in full or in part, the Annual program for professional training.

#### 4.3.9 Environmental protection risks

- environmental pollution;
- improper waste management.



## Human resources

### 5.1 Personnel structure

Throughout recent years, the personnel structure maintained constant in terms of average number of employees. In accordance with its operational license, Transelectrica does not usually hire temporary employees. The operation of electric substations of the PTG and the provision of dispatch services of the NPS are performed by operational personnel organized under working hours with permanent shifts.

Throughout 2017, a total of 75 persons were hired to replace the personnel leaving the Company by joint parties' agreement and retirement.

Table 6: Average number of employees with individual labor contract of indefinite period

Year/indicator	2017	2016	2015
Average number Employees	2,180	2,180	2,180

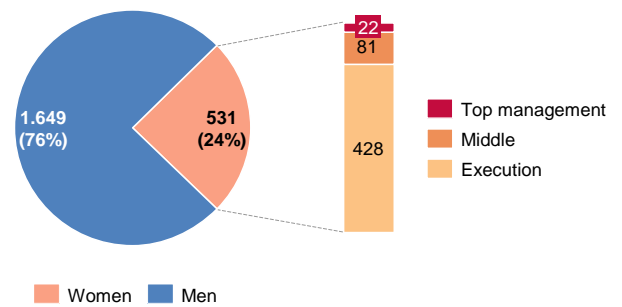
The number of employees with higher education is slightly decreasing compared to the previous period (-3% compared to 2016). In the current year, the share of personnel with higher education represents 60% of the total number of employees, and 40% are personnel with secondary education, generally with an electric power profile.

Table 7: Structure of personnel by education level

Education level	2017	2016	2015
Higher education	1,308	1,317	1,283
Secondary education	872	863	893
Elementary education	0	0	4
<b>TOTAL</b>	<b>2,180</b>	<b>2,180</b>	<b>2,180</b>

Analyzing the employee structure by gender, we can see that three quarters of the total number of employees are represented by men. Out of the 531 women that worked in Transelectrica as of December 31<sup>st</sup>, 2017, 22 hold positions of top management and 81 are in middle management, together covering 19% of the feminine gender personnel.

Figure 15: Structure of personnel by gender



The personnel aged over 40 further represent more than half of the total employees, the registered share being 56% between 2015 and 2017.

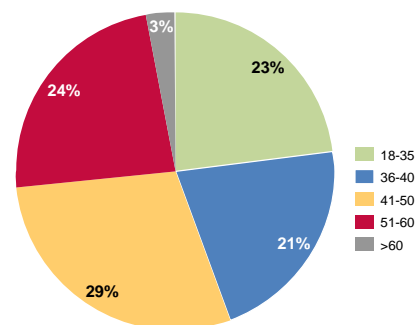
### 47 years old Average age in 2017

During the same period, the percentage of employees aged between 18 and 35 remained constant compared to the previous year

Table 8: Structure of employees by age categories

Age [years]	2017	2016	2015
18-35	502	502	526
36-40	466	468	441
41-50	628	624	585
51-60	516	518	554
>60	68	68	74
<b>TOTAL</b>	<b>2,180</b>	<b>2,180</b>	<b>2,180</b>

Figure 16: Structure of personnel by age



Taking into consideration the activities of strategic interest performed by the Company, most of the employees have between 21 and

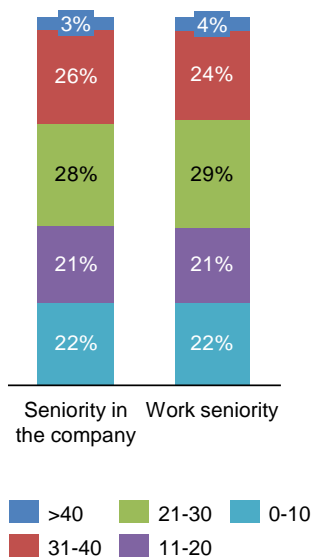


40 years seniority, being experienced employees that bring added value to Transelectrica's entities.

Table 9: Structure of employees by work seniority

Work seniority [years]	2017	2016	2015
0-10	485	487	484
11-20	450	451	446
21-30	634	635	639
31-40	524	525	524
>40	87	82	87
<b>TOTAL</b>	<b>2,180</b>	<b>2,180</b>	<b>2,180</b>

Figure 17: Number of employees by seniority groups



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

Table 10: Structure of employees by their seniority in the Company

Seniority in Transelectrica [years]	2017	2016	2015
<b>0-10</b>	488	488	472
<b>11-20</b>	451	453	453
<b>21-30</b>	614	616	616
<b>31-40</b>	557	558	563
<b>&gt;40</b>	70	65	76
<b>TOTAL</b>	<b>2,180</b>	<b>2,180</b>	<b>2,180</b>

Table 11: Structure of personnel by categories

Staff categories	Number of employees
<b>Operative and operational personnel (standardized activity), of whom:</b>	
NPD	182
Operational personnel in transformer substations, remote control and operational centers	978
Admission-reception personnel	117
OMEPA personnel directly involved in production activities – operational centers, solving non-conformities, tele-metering systems, relations with market participants	41
Personnel directly involved in organizing and monitoring the operations of substations	415
<b>Personnel for support activities and executive management</b>	<b>447</b>
<b>TOTAL</b>	<b>2,180</b>

The operative and operational domain has the greatest share within personnel categories, namely 79%. The greatest concentration of these is provided by operational employees, with 56%.

## 5.2 Professional training

Professional training activities of CNTEE Transelectrica SA employees carried out in 2017 according to the "Annual professional upkeep, training and improvement program of Company employees". The professional training program was structured as a result of the identification of necessary training in order to maintain an adequate training level of employees with a view to increase their performances and those of the organization overall. Therefore, the professional training programs have been adapted to the Company's needs and the theme was in accordance with the legislative changes or novelties occurred in the main interest fields of CNTEE Transelectrica SA.

In 2017, the Company registered ca. 641 attendances to professional training classes carried out by external trainers and ca. 351 attendances to internal training classes (for the operational staff, heads of substations etc.).

The majority of attendances to classes organized throughout 2017 was in the technical field, with an attendance of ca. 63%

to technical classes carried out with external trainers. The Company also envisaged the need to train employees according to the changes required by the enforcement of norms on sectoral public procurements, the novelties occurred in the field of human resources, the development of the energy market, but also the need of authorization/reauthorization for certain employee categories or the training of internal auditors.

The objective of these training programs was to increase the level of expertise necessary to carry out the activity of Transmission and System Operator, by ensuring the NPS operation under maximum security and stability conditions, complying with quality standards and thus realizing the electricity national market infrastructure and guaranteeing the regulated access to the electricity transmission grid, under transparent, non-discriminatory and equidistant conditions for all market participants.

The professional training activity was carried out according to the applicable legal regulations and the particularities and complexity of activities and processes within the Company, in order to obtain a high quality standard of personnel training.

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

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

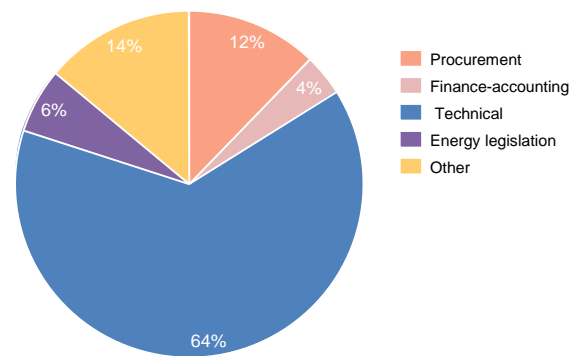
Indicator/Year	2017	2016	2015
Number of participants	522	270	651
Number of attendances	641	413	988
Expenses (mil lei)	0.29	0.20	0.68

Particular attention was paid to training programs dedicated to operative and operational personnel, and the organized activities aimed at permanent training and improvement in fields that require a continuous adaptation to economic and

technological changes, improved professional performance on the job and acquiring new abilities as necessary for the operational processes of new power equipment and systems.

In terms of the number of attendances to the programs organized with external training providers, the greatest share was registered in the technical area, namely 64% of total Company-wide attendances.

Figure 18: Distribution of course attendances by field



### 5.3 Trade union representation

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

A collective labor agreement was concluded between Transelectrica and its employees, valid until December 31<sup>st</sup>, 2018; it regulates the individual and collective employment relationships as well as the parties' rights and obligations with respect to:

- concluding, executing, amending, suspending and terminating the employment relationship;
- working time and resting time;
- wages;
- labor health and security, working conditions;
- professional training;

- social protection of employees and other rights;
- rights and obligations ensuing from employment relationships;
- mutual recognition, employer's rights and obligations and those of trade union organizations.

In order to settle the issues that might occur in the application of the applicable Collective Labor Agreement ("CLA"), to avoid employment conflicts and to create an organizational framework that allows keeping permanently in touch for the preparation of CLA negotiations, the parties negotiated to meet at any time needed in the joint Commission employer - Trade Union. The joint commission operates in accordance with its own regulation.

#### 5.4 Research and development activities

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

Transelectrica annually finances its own study and research programs. For 2017, the allocated funds were between 0.1 and 0.2% of the Company's turnover (the range 2-5% is practiced by similar international companies).

Studies approved within the Company which are included in the Annual Program for Studies and Research 2017 (APSR 2017) are well grounded and necessary for the completion of the following objectives:

- fulfilling the requirements associated with the regulatory framework (e.g.

ANRE License no. 161, Law no. 123/2015 on electricity and natural gas, Technical Codes, regulatory framework associated with the TSO etc.).

- grounding the Company's decisions pertaining to:
- PTG development (PTG development plan 2018-2027), management of PTG assets:
  - operational behavior of PTG equipment and installations;
  - extending the lifetime of or replacing assets;
  - improving the grounding of long-term investment decisions (e.g. Cost-benefit methodologies and analyses);
  - increasing the efficiency of maintenance works;
  - technical support;
- NPS and PTG dispatch management under efficiency and safety conditions;
- Detailed and global analysis of expenditures associated with fulfilling the TSO role;
- Knowledge and implementation of methodologies, standards and good practice elements for increasing the efficiency of the Company's strategic development vision;
- Analysis of the work conditions of the TEL personnel involved in the PTG operation.

The need to promote APSR 2018 works was carefully analyzed in terms of obligations occurred through the fulfillment of the licensed TSO role and of opportunities for improving the decisions related to operationalization of the Company's vision in terms of system operation and asset management.

Works carried out via the Annual Program for Studies and Research 2017, which registered expenses amounted to 760,566 lei, are annually reported to ANRE:

In the draft Statement of Expenditure and Revenue for 2018, the amount submitted for approval to the Directorate was of 1.5 mil lei.

## 6 Perspectives and challenges

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

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

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

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

The aforementioned context is focusing Transelectrica's concerns and efforts in order to consolidate the safe electricity supply of domestic consumers and to actively participate in the integration process of the single electricity market at European level.

In addition, we mention the following group-wide directions: optimizing and increasing the efficiency of the administrative capacity, further implementation of the corporate governance principles, investigating the development opportunities for the business portfolio.

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

- Refurbishing the Power Transmission Grid (PTG) - Transelectrica aims at expediting the upgrade and refurbishment process of the entire equipment and installation pool from transformer substations and to modernize the dispatch systems it currently operates.
- Over the next 10 years (a timeframe covered by the 2018-2027 edition of the PTG development plan - a document subject to public consultation and ANRE approval in the following months), Transelectrica aims to operate an equipment and installation pool with a high degree of reliability and energy efficiency. The advantages of a modern and highly reliable equipment pool are increasing the transmission service capacity (grid availability, interruptions frequency and duration) and lowering the grid operation and maintenance costs (operation, maintenance and internal energy consumption);
- Continuing the investments with a view to complete the 400 kV national ring, which will increase the nation-wide safe consumption supply, especially in areas characterized by an important local deficit of electricity generation, namely the areas where electricity consumption is only partially supplied by the power plants located in those areas (Transylvania, Moldova); the deficit of these regions is covered by electricity transmission over great distances from areas of excess generation;
- Increasing the PTG transmission capacity in order to integrate the electricity generation in conventional and/or renewable power plants, estimated to be built in areas that currently are or in the near future tend to become excess zones compared to the local electricity demand;

### Developing the single electricity market at European Union level (active support for the integration of the single electricity market)

- Expediting the investment projects into Romania's transmission infrastructure with the highest European relevance (projects declared of common interest in the EU electricity transmission sector), mainly oriented towards increasing Romania's cross-border interconnection capacity with the power systems of neighboring countries;
- Participating into the inter-regional integration processes of electricity markets in all time horizons specific to electricity trading (spot market, day-ahead market, intra-day market, real time balancing market between electricity output and consumption);
- Active participation to the European standardization process of network access via grid codes, the operation of electricity grids as well as the calculation and allocation of cross-border exchange capacity and balancing energy systems - grid codes represent common rules established at European level and applied in all European states, developed with a view to enable the uniform and efficient operation of the electricity market to the general benefit of European consumers; grid codes are developed in the European Network of Transmission System Operators (ENTSO-E) according to the priority areas determined by the European Commission (EC) and based on the framework guidelines issued by the Agency for the Cooperation of Energy Regulators (ACER);

At the beginning of 2018, all eight grid codes were approved by EU Regulations. EU Regulations cover three main fields of the electricity sector: grid connection, market functioning and power systems operation. In terms of the regulations in the field of market functioning, Romania is part of two cross-border exchange capacity calculation regions (the Romania-Hungary border in the CORE region<sup>5</sup>, the Romania-Bulgaria border in the SEE region<sup>6</sup>).

Within the CORE region, Transelectrica aims to get actively involved in the governance and decision making mechanisms at regional level by entering the shareholding of the existing regional security center.

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

- Grid regulation operations in foreign energy sectors: analyzing potential procurements of share packages in other similar companies or concluding partnerships with local operators in the form of independent commercial entities for the construction and operation of electricity grids;

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<sup>5</sup> The CORE region comprises of a series of borders which mark market areas in which electricity trading is carried out via a transmission capacity allocation process (according to the ACER Decision no. 6/2016)

<sup>6</sup> The SEE region comprises of a series of borders which mark market areas in which electricity trading is carried out via a transmission capacity allocation process (according to the ACER Decision no. 6/2016)





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# **Operational Report**

## 7 Operational data

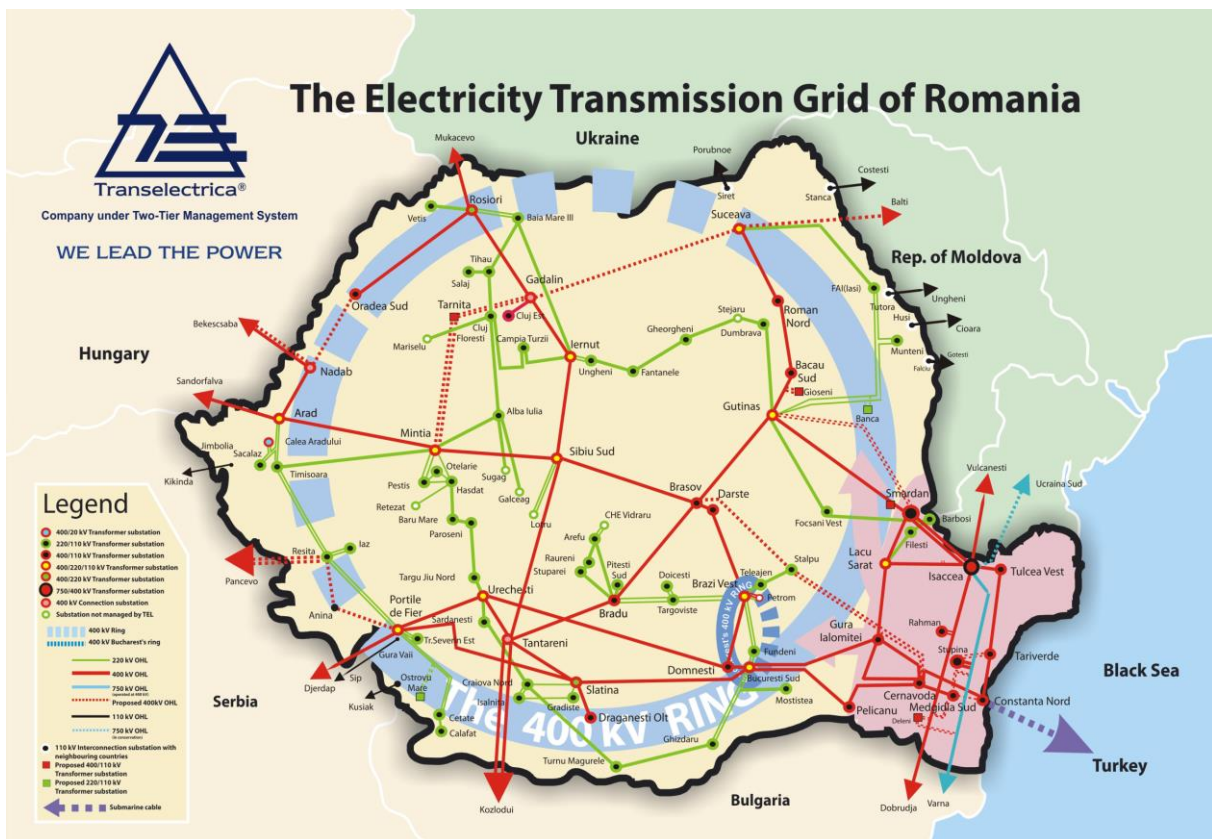
### 7.1 Network configuration

The power transmission grid ("PTG") is an electric network of national strategic interest of nominal line voltage above 110 kV and it consists of all lines plus their support, control and protection elements, electric substations

as well as interconnected electric power equipment.

The PTG provides interconnection between producers, distribution networks, large consumers and the neighboring power systems.

Figure 19: The Power Transmission Grid



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

The power capacities quantity, in accordance with the license for provision of electricity transmission services and system services, is presented in the following table:

Table 13: Power capacities quantity

Voltage (kV)	Substations (no.)	Installed capacity (MVA)	OHL (km)
400	38	21,435	4,915.227
220	42	14,123	3,875.644
750	1	2,500	3.108
110	-	-	40.418
<b>Total</b>	<b>81</b>	<b>38,289</b>	<b>8.834.397</b>



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

The investments made to date allowed maintaining, under proper conditions, the dispatch managed infrastructure and the electricity market infrastructure: the national optical fiber network, the EMS-SCADA monitoring and management system, the metering system of the electricity amounts traded on the wholesale market, IT trading and settlement platforms. The modernization program of the entire network is underway, in accordance with the highest European standards using upgrade and refurbishment works for the most important electric substations of the PTG, as well as developing the transmission capacity over interconnection lines.

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

## 7.2 Selected operational data

### The energy balance of the NPS

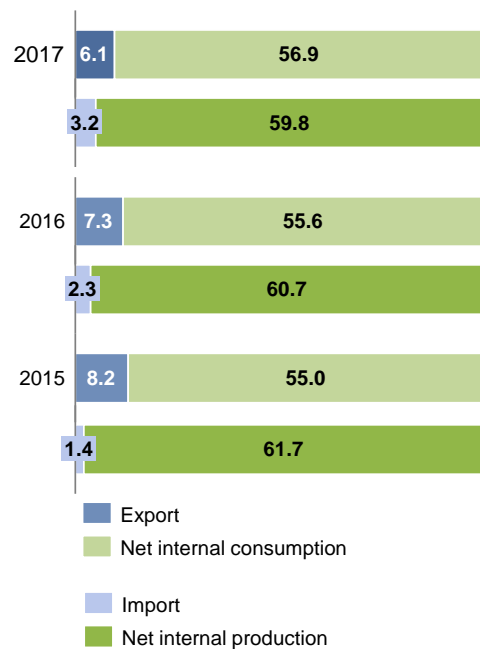
Table 14: Energy balance

TWh	2017	2016	2015
Net output	59.8	60.7	61.7
Import	3.2	2.3	1.4
Export	6.1	7.3	8.2
Net load*	56.9	55.6	55.0

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

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

Figure 20: Energy Balance (TWh)



In 2017, the net internal consumption<sup>7</sup> increased by 2.3% compared to the similar period of the previous year against the background of a ca. 1.4% decrease of the net electricity generation compared to the similar period of 2016.

The physical cross-border exchanges for export decreased by 16.7% compared to the similar period of 2015, while the cross-border flows for import registered an increase of ca. 39.3%.

### National generation units pool

In 2017, the gross capacity installed in power plants registered a 0.1% decrease compared to the same period of 2016.

The capacity installed in renewable energy power plants rose by approximately 0.2%, from 4,525 MW installed on December 31<sup>st</sup>, 2016, to 4,535 MW installed on December 31<sup>st</sup>, 2017.

<sup>7</sup> Values do not include the consumption of auxiliary services from the power plants generating electricity; the value of the net load includes the losses from transmission and distribution grids, as well as the consumption of pumps from the pumping storage hydropower substations.

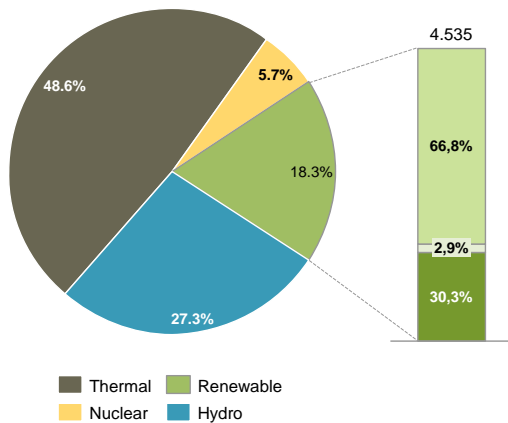
Table 15: Installed capacity (gross values)

MW	2017*	2016	2015
Thermal <sup>8</sup>	12,029	12,032	12,011
Nuclear	1,413	1,413	1,413
Hydro	6,761	6,744	6,731
Renewable <sup>9</sup>	4,535	4,525	4,400
<b>Total</b>	<b>24,738</b>	<b>24,714</b>	<b>24,555</b>

\* Values registered on January 1<sup>st</sup>, 2018

The structure of the generation pool for 2017 is presented below:

Figure 21: Installed capacity in 2017 (24.738 gross value)



### Mix of electricity generation

In 2017 compared to 2016 the Company registered an increase of the thermal and renewable components. The weight of the hydro component registered decreases (14.5 TWh compared to 18.1 TWh in 2016). Structurally, the thermal component accounted for 42% of the generation mix, while the nuclear and renewable generation accounted for 18% and 16% respectively.

Table 16: Mix of net electricity output

TWh	2017	2016	2015
Thermal <sup>10</sup>	25.1	23.4	25.0
Nuclear	10.6	10.4	10.7
Hydro	14.5	18.1	16.5
Renewable <sup>11</sup>	9.6	8.8	9.5
<b>Total</b>	<b>59.8</b>	<b>60.7</b>	<b>61.7</b>

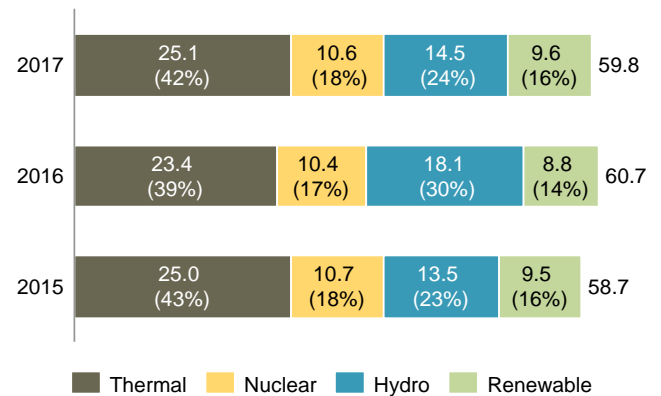
<sup>8</sup> Hydrocarbons and coal

<sup>9</sup> Wind, biomass, solar

<sup>10</sup> Hydrocarbons and coal

<sup>11</sup> Wind, biomass, solar

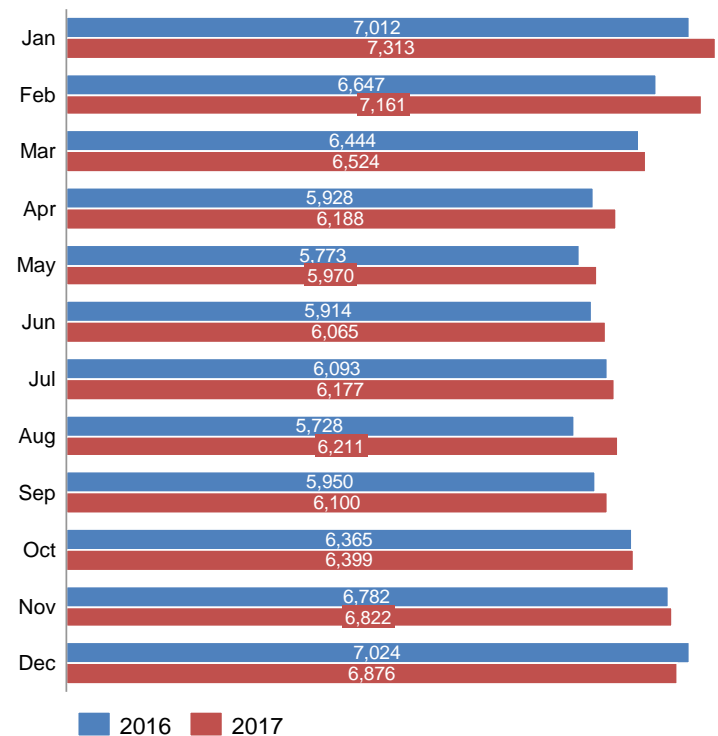
Figure 22: Generation mix 2015 – 2017 (TWh)



### Net load

Each month, the net average load of electricity in 2017 registered increasing trends compared to 2016.

Figure 23: Net average load (MWh/h)



The net maximum hourly load corresponding to 2017 was registered in January, with the same trend of last years when the maximum values were registered during winter months.

Figure 24: Net maximum hourly load (MWh/h)

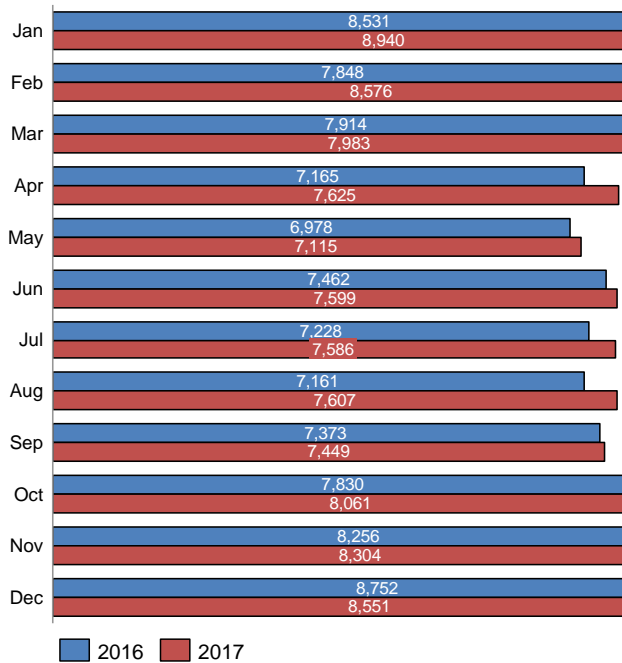


Table 17: Maximum load

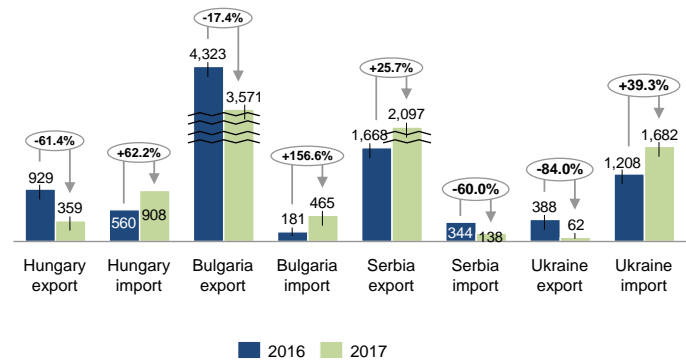
Year	Month	Value (MWh/h)
2017	Jan	8,940
2016	Dec	8,752
2015	Jan	8,488

**Commercial electricity exchanges**

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

In 2017, the trend registered during previous years was maintained with a net export of 2.9 TWh, decreasing compared to 2016 (5 TWh).

Figure 25: Cross-border flows 2017 (GWh)



In 2017, the cross-border flows registered fluctuating developments along borders with Bulgaria, Serbia, Hungary and Ukraine.

- compared to 2016, the physical export flows decreased along the border with Bulgaria (-17%, -752 GWh), Hungary (-61%, -570 GWh) and Ukraine (-84%, 326 GWh), while a +26% increase was registered along the border with Serbia (+429 GWh)
- in terms of import, the Company registered increases along the border with Hungary (+62%, +348 GWh), Bulgaria (+157%, +284 GWh) and Ukraine (+39%, +474 GWh), while a 60% decrease was registered along the border with Serbia (-206 GWh).

**Usage of the total allocated capacity**

Throughout 2017, out of the total capacity allocated as a result of interconnection capacity auctions (as a result of annual, monthly, daily and intraday allocations), the degree of usage for export was lower compared to 2016. The average export values registered were 54% along the border with Hungary, 76% along the border with Serbia and ca. 30% along the border with Bulgaria. Developments registered in 2015 have been influenced by the day-ahead market coupling in Romania, Hungary, the Czech Republic and Slovakia. At the end of 2014 the explicit daily allocation was replaced by the implicit allocation on the Romania – Hungary border. The introduction of the coupling mechanism did not impact the method to determine, harmonize and offer the available capacity on the borders.

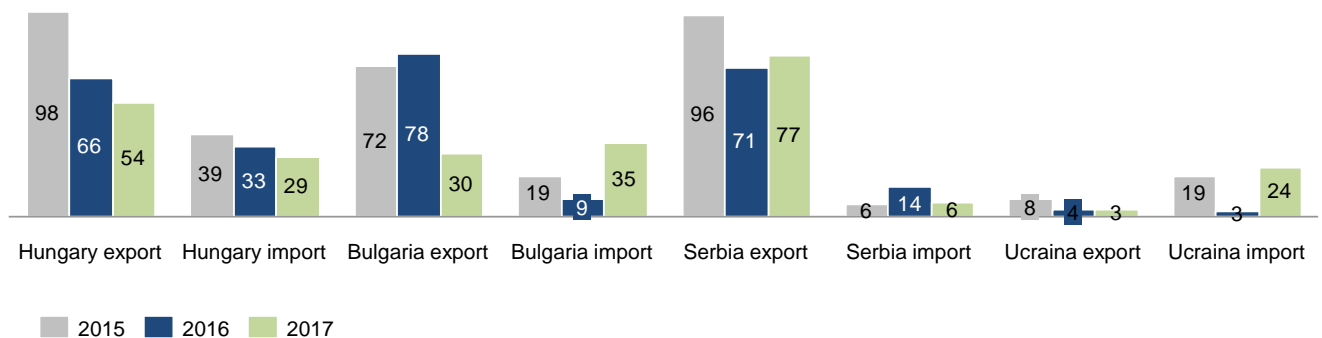
Given the higher interest of electricity suppliers to use the cross-border export capacities to Hungary gained in the annual and monthly auctions, low values resulted for the available capacity for daily allocations on the export direction to Hungary, while a high capacity was freed for import from Hungary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

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

Border	Direction	2017 [%]	2016 [%]	2015 [%]
Hungary	export	54.4	65.8	98.1
	import	28.8	33.3	38.5
Bulgaria	export	29.9	77.6	72.4
	import	34.9	8.6	18.7
Serbia	export	77.5	71.1	96.1
	import	6.3	14.0	5.8
Ukraine	export	3.4	3.6	8.0
	import	23.9	2.6	18.8

The values presented in the table represent annual averages calculated as simple arithmetical averages of the average monthly values

Figure 26: Degree of usage of the total allocated capacity (%)



### Development of own technological consumption recorded in the power transmission grid

The development of the own technological consumption ("OTC") in the PTG is influenced by several factors independent from Tranelectrica's activities, such as: meteorological conditions, output structure vs. load location, physical import/export flows along NPS borders. The lowest values (compared to the energy contour input) are registered in droughty years, given that the low level of the hydro component determines the usage of primarily gas fired electric power plants and thus a better structure is obtained for generation, while Corona losses are reduced.

Table 19: OTC development

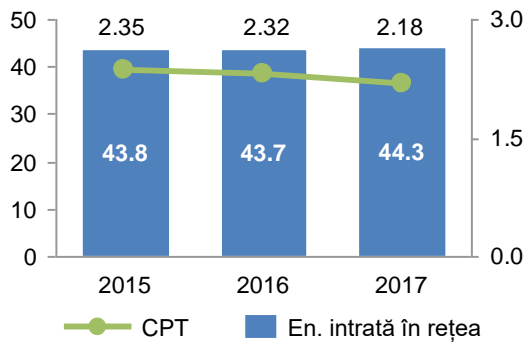
		2017	2016	2015
Energy input in the grid	GWh	44,337	43,674	43,758
Losses	GWh	965	1,012	1,030
OTC	%	2.18%	2.32%	2.35%

### Factors that determined the OTC development (%) in 2017 compared to the previous year

In 2017, the quantity necessary to cover the OTC in the PTG (965 TWh) dropped by ca. 4.68% compared to the same period of 2016 (1,120 TWh), being a mixture of better meteorological conditions, physical import/export flows and the output structure.

Compared to the energy contour input, losses slightly decreased from 2.32% in 2016 to 2.18% in 2017.

Figure 27: OTC development (2015 – 2017)



**Monthly OTC development in 2017**

Maximum level – March:

In March, the OTC has recorded its maximum value of 2.31%.

The low amount of energy contour input directly contributed to a higher OTC percentage.

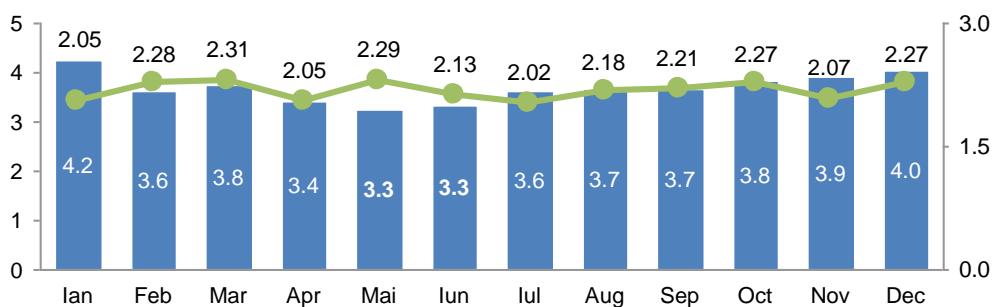
The OTC development in the first part of the year was influenced by the more favourable meteorological conditions, more advantageous generation flows and structure and lower quantities of rainfall.

Minimum level – July:

On a monthly level and compared to the PTG input energy, the minimum OTC value was in July, namely with 2.02% (72.864 GWh). The decisive factor for the small amount of losses was represented by the more advantageous re-emergence of physical flows on the borders, which led to the reduction of the transmission of remote energy.

In absolute values, there have been three months with low, approximately equal values: April (70.141 GWh, namely 2.05% of the electricity input in the PTG), June (70.460 GWh, namely 2.13 % of the electricity input in the PTG) and July (72.864 GWh, namely 2.02% of the electricity input in the PTG). In April, the decisive factor for the losses decrease was represented by the more advantageous re-emergence of generation, which led to the reduction of the transmission of remote energy. In June, the losses decrease was favoured by the advantageous physical flows and meteorological conditions which led to the decrease in Corona losses. In July, the small amount of losses were the result of the decrease in PTG energy contour input and the advantageous re-emergence of physical flows on the borders, which led to the reduction of the transmission of remote energy.

Figure 28: OTC monthly development in 2017



## PTG development

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

### PTG development plan – 2016-2025 timeframe

The "PTG development plan for 2016-2025" ("PTG Plan") approved by ANRE relied on analyses on PTG operational regimes in future years, based on mid- and long-term scenarios about consumption development, generation units pool and exchanges with neighboring systems.

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

Through their specific features, PTG infrastructure projects need a higher period of preparation and completion, therefore results become tangible only after a certain number of years.

Experience shows the usual complete cycle of an investment project (starting with the initial design stage, elaborating the feasibility study, the terms of reference and technical project, up to project execution and commissioning) in order to carry out/refurbish one electric substation takes 5 years on average, while building a new electric line requires 9 years.

The generation park in the Dobrogea region has shown a rapid development. Many wind and photovoltaic power parks were built. There are also plans for two more nuclear units in NPP Cernavoda. Consequently, there is a need for the consolidation of the internal network segment providing power transmission to the consumption and storage centers situated in the west and northern parts of the region. Starting from an output of ca. 3,000 MW from new parks in Dobrogea (regardless of the source used - WPP, PHPP, NPP Cernavoda, TPP Braila, TPP Galati), the need occurred to enhance the network capability to discharge the power. Depending on the exact location of plant projects that will be built and on the distribution manner of plant loads in the remaining parts of the NPS, this need can occur for a value of 2,500 MW/3,500 MW.

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

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

Developing generation capacities based on renewable sources leads to intensified exchanges between systems and increasingly fluctuating power flows across vast regions. The experience of last years and the forecast of the following period indicates a high demand of Romania's network at the borders with Serbia and Hungary, both for exchanges between the NPS and these systems and for the transit crossing the NPS network. Increasing the exchange capacity at the western interface



of the system is required in order to provide the infrastructure necessary for electricity exchanges in the region. Projects increasing the interconnection capacity with the Republic of Moldova are under review as well, therefore the volume of power exchanges currently carried out by means of radially connected consumption/output islands, with very limited values, can increase to significantly greater values.

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

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

#### **Projects included in the PTG development plan – 2016-2025 timeframe**

In accordance with the competencies and attributions established in the Electricity and Natural Gas Act no. 123/2012 and with the Conditions associated to License no. 161 for

electricity transmission and provision of system services, the National Power Grid Company "Transelectrica" SA plans the development of the power transmission grid, taking into account the current stage and the forecasted development of consumption, the generation units pool and the electricity exchanges, and biannually drafts a Development plan for the next ten successive years.

The latest approved edition of the Ten years' development plan refers to the 2016-2025 timeframe. This was approved by ANRE under Decision no. 1251/2016 and by the Ministry of Economy under Agreement no. 4953/C6B/2016.

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

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

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

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



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

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

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

- Resita (RO) – Panchevo (Serbia) 400 kV OHL d.c. (at the date of the report, the line was received and will be operational by the end of 2018);
- Portile de Fier – Resita 400 kV OHL and extending the Resita 220/110 kV substation by building a new 400 kV substation;
- Converting the Resita – Timisoara – Sacalaz – Arad 220 kV OHL d.c. to 400 kV, including the construction of the Timisoara and Sacalaz 400 kV substations.

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

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

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

The documentation for accessing funds via the financial instrument Connecting Europe Facility (CEF) was drafted and submitted in 2017 to the European Commission for the project of common interest Cernavoda-Stalpu 400 kV OHL d.c. Taking into consideration the importance the project has in the region, its contribution to the increase of cross-border exchange capacity between Romania and Bulgaria, as well as its maturity degree, following the analysis and evaluation process of the received financing requests, the European Commission, via the

Innovation and Networks Executive Agency (INEA), adopted in January 2018 the decision to finance 50% of the total estimated eligible costs of this project.

Other projects increasing the discharge capacity from Dobrogea:

- Stupina – Varna 400 kV OHL and Rahman – Dobrudja 400 kV OHL input/output connection in the Medgidia Sud 400 kV substation;
- Extending the Medgidia Sud 400/110 kV substation and refurbishing the 110 kV substation in order to increase the breaking power of switches in correlation with increasing the short-circuit current;
- Gadalin – Suceava 400 kV OHL s.c.;
- Stalpu – Brasov/Darste 400 kV OHL;
- Converting the operational voltage of the Brazi Vest - Teleajen – Stalpu 220 kV OHL to 400 kV (built for 400 kV), including the construction of the Stalpu and Teleajen 400 kV substations;
- Medgidia Sud - Constanta Nord 400 kV OHL d.c.
- Suceava – Gădălin 400 kV OHL s.c.
- Replacing conductors of the Stejaru - Gheorghieni - Fantanele 220 kV OHL;
- Increasing the transmission capacity of the 8 km long segment with smaller section on the Bucharest Sud - Pelicanu 400 kV OHL;
- Increasing the transmission capacity of the 53 km long segment with smaller section on the Cernavoda - Pelicanu 400 kV OHL.

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

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

To provide safe discharge of power from the thermal power plants Craiova and Isalnita, a

plan was made to increase the transmission capacity of the Isalnita – Craiova 220 kV OHL circuit 1 (9.6 km).

#### Safe consumption supply from deficit areas

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

#### The completion of the Suceava-Balti 400 kV OHL is planned for the interconnection with the system from the Republic of Moldova

The general energy cooperation framework between Romania and the Republic of Moldova is regulated by the Memorandum of Understanding concluded in 2015 between the governments of the two countries. In 2016 the Working Arrangement was signed between CNTEE Transelectrica SA and ÎS Moldelectrica in order to complete the interconnection projects via Back to Back substations also mentioned in the Memorandum of Understanding:

1. Isaccea (RO) – Vulcănești (RM) 400 kV OHL (existing line) new Vulcanesti-Chisinau 400 kV d.c., Vulcanesti Back to Back substation;
2. Suceava (RO) – Bălți (RM) 400 kV OHL s.c. and Balti Back to Back substation;
3. Iasi (RO) – Ungheni – Straseni (RM) 400 kV OHL s.c. and Straseni Back to Back substation.

Out of these projects, the first two have the highest change of completion. The first

project is included in the Projects of Mutual Interest (PMI) list, promoted for the Energy Community. The Suceava-Balti 400 kV OHL might be completed after the synchronous interconnection of the systems from Ukraine and the Republic of Moldova with the continental system or as a necessary measure for the synchronous interconnection, should this result from the studies.

4. Suceava (RO) – Bălți (RM) 400 kV OHL s.c. and Balti Back to Back substation;

5. Iasi (RO) – Ungheni – Straseni (RM) 400 kV OHL s.c. and Straseni Back to Back substation.

Out of these projects, the first two have the highest change of completion. The first project is included in the Projects of Mutual Interest (PMI) list, promoted for the Energy Community. The Suceava-Balti 400 kV OHL might be completed after the synchronous interconnection of the systems from Ukraine and the Republic of Moldova with the continental system or as a necessary measure for the synchronous interconnection, should this result from the studies.

#### Refurbishment and modernisation of existing substations

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

- Bucuresti Sud 10 kV,
- Bradu 400/220/110/20 kV,
- Cluj Est 400/110/10 kV,
- Suceava 110/20 kV,
- Vetis 220/110/20 kV,
- Sardanesti 220/110/20 kV,
- Turnu Severin Est 220/110 kV,
- Sardanesti 400/110/20 kV,
- Isaccea 400 kV,
- Arefu 220/110/20 kV,
- Raureni 220/110 kV,
- Dumbrava 220/110 kV,
- Otelarie electrica Hunedoara 220 kV,
- Ungheni 220/110/20 kV,
- Medgidia Sud 110 kV,
- Filesti 220/110 kV,
- Craiova Nord 220/110 kV,
- Baru Mare 220/110kV/MT,
- Iaz 220/110 kV,
- Hasdat 220/110 kV,

- Munteni 400(220)/110/20 kV,
- Focsani Vest 400(220)/110 kV,
- Pelicanu 400/110 kV,
- Bacau Sud 110 kV,
- Roman Nord 110 kV,
- Stalpu 110 kV/MT,
- Ghizdaru 20 kV,
- Fantanele 220/110/20 kV
- Calafat 220/110 kV

Modernisation/replacement of the command control protection system in 4 substations (Sardanesti 220/110/20 kV, Ghizdaru 220/110/20 kV, Draganesti Olt 400/110 kV, Gradiste 220/110 kV).

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

- Technical upgrade of the Sacalaz 110 kV substation (correlated to the work on the western axis);
- Technical upgrade of the Alba Iulia 220/110kV/MT substation

- Technical upgrade of the Dârste 400/110 kV substation
- Technical upgrade of the Smardan 400/110/20 kV substation;
- Modernisation/replacement of the command control protection system in 19 substations (Oradea Sud 400/110/20 kV, Rosiori 400/220 kV, Targoviste 220/110/20 kV, Salaj 220/110/20 kV, Baia Mare 3 220/110 kV, Tantareni 400 kV, Urechesti 400/220/110 kV/MT, Paroseni 220/110 kV, Pestis 220/110 kV, Nadab 400 kV, Calea Aradului 400 kV, Bucuresti Sud 400/220/110 kV, Turnu Magurele 220/110 kV, Sibiu Sud 400/220/110/20 kV, Gheorgheni 220/110/20 kV, Cluj Floresti 220/110 kV, Mintia 400/220/110 kV, Fundeni 220/110 kV, Cernavoda 400 kV).

## 8.1 Investments

### 8.1.1. Investments of 2017

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

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 substation 220/110/20 kV Câmpia Turzii – 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 substation – 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 CNTEE "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;
- Integrated security system in electrical 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) – 5.6 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 CNTEE 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;

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 Reșița (Romania) – Pancevo (Serbia) – 98.3 mil lei;
- PTG connection of the Ivești 300 MW WPP, Fălciu 1 88 MW WPP and Fălciu 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 Porțile de Fier – Reșița – Timișoara – Săcălaz – Arad axis to the 400 kV voltage – stage I – Porțile de Fier – (Anina) – Reșița 400kV OHL s.c. – 20.1 mil lei;
- Extending the services providing business continuity and recovery after disasters – 14.4 mil lei;
- Upgrading the Cluj Est 400/110/10 kV station – 13.3 mil lei;
- Replacing AT and TRAF0 in electrical substations – Stage II – 11.6 mil lei;
- Connecting the Isaccea – Varna 400 kV OHL and the Isaccea – Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation – 10.7 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 220/110/6 kV substation – 1.8 mil lei;
- Executive - DCBPA/CPA: Consolidation, upgrading and extension of the CNTEE "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 TB Pitești (SF) – 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 d.c. – PTG – 0.75 mil lei;
- Oradea – Beckescsaba 400 kV OHL – 0.74 mil lei.
- Implementing a system of Electronic Archiving and Document Management within CNTEE Transelectrica SA – 5.5 mil lei;
- Replacement of EMS SCADA AREVA system components - software component, hardware component – 4 mil lei;
- MIS extension – advanced reporting and budget planning solution – 3 mil lei;
- Upgrading the SCADA system for the Constanța Nord substation– 0.57 mil lei;

On December 31<sup>st</sup>, 2017, the tangible assets also included down payments amounting to 31.2, granted to the supplier ELCOMEX - IEA SA for performing the projects:

- Connecting the Isaccea–Varna 400 kV OHL and the Isaccea–Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9.9 mil lei;
- Converting the Porțile de Fier – Reșița – Timișoara – Săcălaz – Arad axis to 400 kV – stage I – Reșița 400/220/110 kV substation – down payment amounting to 21.2 mil lei.

The down payments made to ELCOMEX – IEA SA were 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, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31.2 mil 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. Starting with June 30<sup>th</sup>, 2017, the down payments amounting to 31.2 mil lei have been reclassified from "Tangible Assets" to "Receivables".

The balance of tangible assets in progress on December 31<sup>st</sup>, 2017 is mainly represented by:



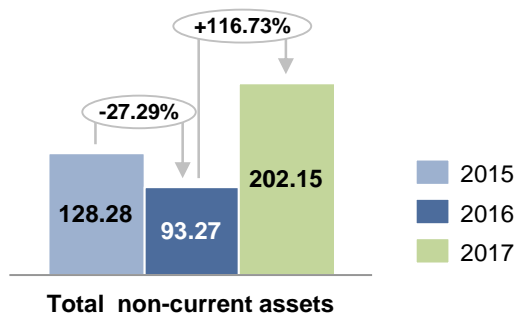
The purchases of tangible and intangible assets<sup>12</sup> in 2017 amounted to 182.9 mil lei, compared to the same period of 2016 when the purchases amounted to 172.8 mil lei.

Table 20: Purchase of tangible and intangible assets

Mil lei	2017	2016	2015
Purchase of tangible and intangible assets	183	172*	214

\*The amounts do not include the unused/unpaid advance payment corresponding to the new line section Porțile de Fier – (Anina) – Reșița amounted to 29.6 mil lei

Figure 29: Value of non-current assets entered in the accounts (VAT free, mil lei)



### 8.1.2. Investment activity and the investment amount in 2017

thousand lei			
No.	Types of expenditures	Budgeted	Realized
	<b>Grand total (A + B)</b>	<b>350,056</b>	<b>202,571</b>
<b>A</b>	<b>Company's own expenses</b>	<b>344,138</b>	<b>199,370</b>
I	Continued investments	229,458	175,077
II	New investments	76,346	14,592
III	Other investment expenditures	38,334	9,701
<b>B</b>	<b>Investments financed from the connection fee</b>	<b>5,918</b>	<b>3,201</b>

### 8.1.3. Projects started in 2017

<sup>12</sup> Includes the variations of pending asset suppliers on December 31<sup>st</sup>, 2016

The main projects started in 2017 for which agreements have been concluded are the following:

No.	Objective	Contract	Value
1	Technical upgrade of the Domnești 400/110/20 kV substation	C 18/07.02.2017	24,897,000 EURO
2	Upgrading the 110 and 400(220) kV installations from the Focșani Vest substation	C 260/11.12.2017	22,748,075 lei
3	Upgrading the Bacău Sud and Roman Nord 110 kV substations, corresponding to the Moldova 400 kV axis	C 264/14.12.2017	38,079,648 lei
4	Technical upgrade of the Ungheni 220/110/20 kV substation	C 277/21.12.2017	9,168,216 EURO
5	Technology research and development center for working with live equipment (LST) and rapid intervention in the NPS - stage I	C 19/06.06.2017	5,358,890 lei
6	Connection of Turnu Măgurele, Mostiștea, Stălpu, Teleajen substations to the optical fiber network of CNTEE "TRANSELECTRIC A" - SA - Batch 2	C 529/26.06.2017	4,277,850 lei
7	Equipment for videowall type display for the control rooms of the dispatching CPD/TPD centers	C 198/11.10.2017	3,717,187 lei

### 8.1.4. Difficulties occurred in starting up the projects

The following difficulties were generally announced in starting up the projects:

- Obtaining GD for starting the expropriation proceedings;
- GD for derecognition as forestry;
- Approval from local authorities;



- High procedure duration for procurement/continuing tenders/appeals from the bidders.

### 8.1.5. Short description of the main projects started in 2017

#### Technical upgrade of the Domnesti 400/110/20 kV substation

The Domnesti 400/110/20 kV substation is of great importance for the PTG (it represents one of the injection points in the distribution network for the Bucharest municipality) and it also represents a power transit node between the Oltenia, Muntenia and Transilvania Sud regions. The 110 kV substation represents both an interconnection and TPP Bucuresti Sud generated power discharge node, and a supply node for an important part of the load in Bucharest municipality.

Taking into consideration the importance of this substation and also the current status of the installation, as well as the applicable legislative requirements, the modernization via technical upgrade is necessary for this substation at all voltage levels, in order to bring it to a security and reliability level adequate for the importance of the region and the energy objective, using the technical capabilities currently available worldwide.

Works consist of the technical upgrade of the entire Domnesti 400/110/20 kV substation, both in the primary and in the secondary part, their integration in the CTSI Bucuresti and NPD/TPD systems, as well as the construction part related to the 400 kV and 110 kV substations. The project also includes the construction of a new command body.

Works in Transelectrica's and ENEL Distribuție Muntenia Sud's adjacent substations are also planned.

#### Upgrading the 110 and 400(220) kV installations from the Focșani Vest substation

The project's general objective is completing the technical upgrade of the substations related to the two voltage levels:

- Within the NPS, the Focșani Vest transformation electrical substation is an

injection node for the supply of zonal consumers (adjacent industrial platforms, Adjud and Marasesti cities) and a node for the reservation of the local consumption zone related to the Focsani municipality.

- The project's objective is subordinated to Transelectrica's view presented in the documents called "General view on the remote control of technically upgraded electrical substations". To this extent, the Focsani Vest 400(220)/110 kV substation will be 100% remotely controlled (with remote control, remote signaling and remote metering) from the NPD/TPD/CTSI headquarters.

#### Upgrading the Bacău Sud and Roman Nord 110 kV substations, corresponding to the Moldova 400 kV axis

Per Company policy, in order to develop the power system and to implement the Company's strategy for the remote control of electrical substations, taking into account their degree of wear and tear and obsolescence, their technical upgrade to the current level of technology is imminent.

Between 2006 and 2008 the Bacau Sud and Roman Nord substation were upgraded to 400 kV on the Gutinas-Bacau Sud-Roman Nord-Suceava axis. This project however did not include the corresponding 110 kV substations. The Gutinas 110 kV was subsequently refurbished and the refurbishment agreement for the Suceava 110 kV substation is also in an advanced stage.

In order to consolidate the Moldova 400 kV axis it is necessary to refurbish the Bacau Sud and Roman Nord 110 kV substations and their interface with the corresponding 400 kV substations.

Within the modernization project of the Bacau Sud-Roman Nord 110 kV substations, several aspects are taken into consideration, under which: the execution of works for the primary and secondary circuits corresponding to the 110 kV substations and their interface with the corresponding 400 kV substations.

Thus, the primary equipment with a high degree of wear and tear and obsolescence are replaced with newer, more efficient equipment, up to date with the current level of technology. Secondary circuits will be completely upgraded to the level of the current new NTI, which

results in an advanced and highly reliable command-control-protection system which will ensure the remote control of the substation. Works will be carried out based on the project documentation which will be updated according to the applicable legislation and new requirements.

### **Technical upgrade of the Ungheni 220/110/20 kV substation**

The solution proposed for the completion of these works is based on the disassembly of all equipment currently existing in the substation and the execution of the following main works:

- Replacing the isolation, switches, arresters and command devices, metering transformers (TC and TT) and dischargers with variable resistance for the 220 kV and 110 kV substations;
- For the 20 kV connection the old cells will be replaced with new, more efficient and fully equipped ones, including with security devices specific to each type of equipment (short-circuiting devices, voltage detectors, electroinsulating rods, special parts for the

#### **8.1.1 Investment programme for 2018 and the estimation for 2019 ÷ 2020**

The Company aims at stimulating investments for PTG modernisation and refurbishment as well the increase of the interconnection capacity with neighbouring countries, both to ensure the operational safety of the National Power System and to facilitate electricity exports.

The Company's 2018 Investment Programme and the investment expenses estimated for 2019 and 2020 (AIP 2018) was grounded taking into account the following elements:

- the investment priorities established in the PTG Development Plan - 2016-2025 timeframe;
- the execution schedules of the continued investment projects;
- the proposals received from project managers, branches and entities within the management of CNTEE "Transelectrica" – S.A;

connection to earth outlets and in short-circuit on the current paths in the points set out after drafting the single wire scheme and its approval by the beneficiary).

In terms of the works for correlating with and integration in SCADA of the AT1 200MVA and Trafo1 25MVA transformation units, the project will take into consideration the existing provisions in the paragraphs/annexes of the documentation approved in TESC for "Replacing the Ungheni substation AT2 200MVA" and "Replacing the Ungheni substation Trafo2 16 MVA".

### **Technology research and development center for working with live equipment (LST) and rapid intervention in the NPS - stage I**

The main goal of the project is the completion of a technology research and development center for working with live equipment (LST) and rapid intervention in the NPS. The first stage includes the completion of the specialized ground with the endowments necessary for the specific training.

- main risks that might impact the achievement of PAI 2017

The main investment areas

- Refurbishing the existing electricity network, represented by:
  - upgrades of electric substations;
  - upgrading the command-control-protection systems from substations;
  - replacing the autotransformers and power transformers in electric substations.
- Increasing the interconnection capacity, both with neighbouring ENTSO-E countries and with those outside the EU – Moldova, Serbia and completing the 400 kV national ring;
- Integrating the output from the new power plants and eliminating congestions;
- Developing the system operator (dispatching) capabilities;
- Upgrading the IT and telecommunication infrastructure.

Structure of the 2018 investment programme and the estimations for 2019, 2020 are presented in the following table:

Table 21: Investment plan (mil lei, exclusive of VAT), as per SER 2018-2020

No.	Types of expenditures	2018	2019	2020
	<b>Grand total (A + B)</b>	<b>420,766</b>	<b>637,842</b>	<b>657,519</b>
<b>A</b>	<b>Company's own expenses</b>	<b>413,576</b>	<b>637,842</b>	<b>657,519</b>
I	Continued investments	249,627	154,389	101,705
II	New investments	120,065	446,857	552,309
III	Other investment expenditures	43,884	36,596	3,505
<b>B</b>	<b>Investments financed from the connection fee</b>	<b>7,190</b>	<b>-</b>	<b>-</b>

Detailing the investment expenditures of 2017 by the main chapters of the programme in correlation with the main chapters of the Development Plan is as follows:

#### Company's own investments: 199 mil lei

The sum allocated to continued investments is 175 mil lei and represents 87.8 % of the Company's own investment expenditures.

#### 8.2.2 Investments financed from the connection fee

Their value shows a strongly decreasing trend due to the impact of the new green certificate legislation, since many renewable energy sources investors gave up the works to connect to the NPS or requested to postpone it even if they had paid the connection fee. Thus, the annual average of this type of projects was 100 mil lei in 2009-2012, period of intensive development of wind parks, but 2017 ended with only 3 mil lei in investments for this type of projects.

## 8.2 Quality of provided services

In accordance with the Performance standard for electricity transmission and system services approved by ANRE Order no. 17/2007, the key

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



**99.9981%**

#### Availability of the transmission grid

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

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

Table 22: Performance indicators for the PTG management/operation activity

Indicator	2017	2016	2015
<b>INDLIN (hours/year)</b>			
<b>Total</b>	<b>158.10</b>	<b>186.79</b>	<b>184.30</b>
• Unscheduled (accidental)	11.67	16.88	36.66
• Scheduled	146.43	169.91	147.97
<b>INDTRA (hours/year)</b>			
<b>Total</b>	<b>182.01</b>	<b>204.29</b>	<b>155.01</b>
• Unscheduled (accidental)	18.51	4.91	8.90
• Scheduled	163.50	199.39	146.11

- Energy not supplied to consumers due to disconnections and the average interruption time<sup>13</sup>:

Table 23: Indicators for the continuity of transmission services

Indicator	2017	2016	2015
Energy not supplied (MWh)	289.44	224.69	38.36
Average interruption time (min/year)	2.76	2.11	0.36

<sup>13</sup> AIT – the time equivalent average period, expressed in minutes, during which the electricity supply was interrupted

### 8.3 Maintenance

Maintenance activities are compliant with the *Maintenance Assurance Program* (MAP) developed pursuant to the Regulation regarding management and organization of maintenance activities approved by Order no. 35/2002 of the National Regulatory Authority for Energy (ANRE), respectively on the basis of the ANRE Order no. 96/2017 (which abolished Order no. 35/2002) the *Regulation regarding preventive maintenance to the PTG installations and equipment* - Technical internal norm of Transelectrica with the symbol NTI-TEL-R001-2007 and the *Annual maintenance programs* (MP).

The MAP provides *activity regulation*, introduces the modern concept of *activity optimization and running* and is applied to all maintenance components (technical, economic and financial, relational, organizational) as provided to all assets from the PTG. The MAP comprises and maintains *the entire documentation regarding maintenance activities* while providing the framework to elaborate, review and update the documents pertaining to maintenance, as the case may be.

NTI-TEL-R-001-2007 sets out that the application of maintenance work/services must only take place *at appropriate times, according to the necessary quantities and quality*, in such a manner as to comply with the following important desiderata:

- maintaining a proper operational safety level of PTG installations;
- maintaining the intrinsic reliability levels of functional assemblies and component equipment;
- increasing the availability of installations;
- optimizing the total costs during utilization;

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

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

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

##### Categories of maintenance

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

- preventive – prophylactic for preventing defects, namely to reduce the occurrence likelihood of a defect or degradation;
- corrective – when defects are detected, including all actions meant to restore an installation to the condition which enables to it perform the specified functions,

while aiming at optimizing all objectives proposed for PTG:

- operational safety,
- availability,
- efficiency

as well as the compliance with the Performance standard.

##### Levels and types of maintenance activities

Maintenance work/services are classified according to the *"Maintenance Assurance Program"*, namely MAP, by 4 levels (level 1 - 4) which represent the complexity degree of services/works, the necessary tools/machines, the needed qualification for providers/contractors etc.

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

### Preventive maintenance

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

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

- level 1 – supervision, periodic control, monitorization, functional tests;
- level 2 – technical review work – RT;
- level 3 – current repair work – RC;
- level 4 – capital repair work – RK.

A particular type of maintenance is *rehabilitation*, defined according to ANRE Order no. 35/2002 as an array of *complex maintenance* works which, without changing the initial technology, restore the technical efficient condition of installations to a level close to the beginning of their lifecycle. In the PTG, rehabilitations are taken into account for electrical substations with replacement of equipment, and for OHL by replacing elements to improve reliability.

### Corrective maintenance

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

Corrective maintenance activities (accidental services/works) are urgently carried out to all installations in accordance with the provider's/contractor's maintenance works/services contractual obligations.

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

- Time Centered Maintenance (TCM) and Evaluation of Time Centered Technical Condition (ESTBT) – visual controls, prophylactic measurements, tests etc. (the name "systematic preventive maintenance" is also used);
- Maintenance Centered on Technical Condition (MBST); the name "conditional preventive maintenance" is also used;
- Monitoring and diagnosis (online or offline);
- Reliability Centered Maintenance (RCM);
- Risk Centered Maintenance – RCM (with a view to prioritize activities);
- Special tests and expertise.

A combination of such methods will be used within PTG, namely:

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

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

Major preventive maintenance (MPM) to technological installations that provide electricity transmission (considered functional assemblies), is grounded, planned and scheduled in differentiated manner for each functional assembly, while applying the



Reliability Centered Maintenance – RCM principles, a methodology that can also serve to direct the proposals with the needs of new investments.

Annual maintenance programs are carried out providing priority to works/services that lead to increasing the operational safety of installations, or to completing the contracted works/services and those contributing to the good operation of installations. One should also take into account the perspective of implementing the remote control and supervision program for electric installations, which requires the rehabilitation of electric equipment and will lead to reduced personnel and operational expenses.

In 2017 maintenance expenses amounted to 81 mil lei, which include major and minor maintenance, as well as other maintenance expenses.

Table 24: Types of PTG maintenance (mil lei)

Maintenance	Budget 2017	Achievements 2017
Minor preventive	23	24
Minor corrective	45	32
Major preventive	39	25
Total	107	81

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

**The 2017 maintenance program and estimations for 2018-2019**

The 2017 Maintenance Program includes management of electric installations operation and the maintenance of non-current property, plant and equipment such as: electric installations and technological buildings (except for the IT & Tc, the remote control and integrated security systems), which constitute the power transmission grid (PTG), when costs are minimized, assets are best used and their performance is increased; preventive,

corrective and reliability centered maintenance services/works; services/works in the design stage; and services/works underway. The Program was structured by programs and projects depending on installation types, as follows:

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

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

- updating the maintenance policy, strategy and regulation of CNTEE Transelectrica SA;
- providing preventive and corrective maintenance: (i) minor maintenance based on the contract concluded with Subsidiary SMART; (ii) major maintenance by projects (high power transformer units, OHL, substations and technological buildings) based on contracts concluded with specialized entities;
- using IT applications/databases for operation and maintenance activities;
- optimizing costs, reducing repair times and the unavailability period of installations by concluding the framework agreement no. AC 14/2016, pertaining to the supply of medium and high voltage primary equipment;
- analysis and expert evaluation of the Company's power transformer units. The results were used in order to prioritize their replacement under investment projects.
- optimizing maintenance costs for OHL by making multispectral investigations (in visible, infrared and ultraviolet spectrums),

by laser scanning and replacing defect components.

- introducing modern technologies and methods for diagnosis, supervision and monitoring into maintenance activities, or by general application of solutions resulting from pilot projects such as:
- fixing online monitoring systems on transformer units and OHL;

The 2017 and 2018 estimations for the values of Maintenance Programs took into account the necessary technical work contained in the PTG development plan for the 2016-2025 timeframe, the provisions of the Preventive maintenance regulation to PTG installations and equipment, the requests of Transmission Branches and the increased number of accidental events to OHL.

The efficiency of maintenance activities will be further increased by:

- Continuing the multispectral inspection of OHL and LASER scanning;
- Using non-invasive methods to ascertain the technical condition of electric installations;
- Purchasing intervention poles and concluding a framework agreement to assemble/disassemble them; Concluding a framework agreement for OHL reconditioning in case of damage;
- Coordinating energy audit services for the administrative and technological buildings of Transelectrica.

## 9 Other activities

Of great importance within the Company are the development of knowledge and promotion of new energy technologies and solutions which have evolved and significantly progressed over recent years, both in terms of concepts and solutions, and equipment.

Thus, Transelectrica became partner in various financing projects via which it may bring important contributions as TSO in this geographical area of Europe and to fulfilling

the previously mentioned objectives. Within these partnerships revenues are collected for other types of activities by the Company's experts' contribution.

The Company may carry out activities in the following fields:

- Management of projects financed via non-repayable European Funds, on different axes which correspond to the Company's objects of activity.

## 10 European projects

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

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

To cope with such issues, Europe needs a clear energy strategy which should be focused on a set of measures meant to ensure the implementation of an integrated electricity market and to achieve the 3 main objectives:

- security of supply
- competitiveness
- sustainability

Emphasis is placed on completing the pan-European energy market integration, consolidating the coordination of national policies, eliminating market barriers and energy isolation, lowering the energy price for consumers, upgrading the infrastructure and drawing investments in the energy sector,

focusing on innovative technologies and generation capacities for green energy.

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

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

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

With a view to constitute a truly integrated electricity market, we must continue harmonizing the current rules on capacity allocation, congestion management and electricity trade.

In this context, *Regulation 1222/2015 establishing a guideline on capacity allocation and congestion management* was developed and approved. This document determines the

minimum harmonized norms in order to provide the single day-ahead and intra-day coupling on a pan-European level, thus enabling a more efficient grid usage and increased competition, to the benefit of consumers.

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

On November 15<sup>th</sup>, 2016, a Memorandum was signed at governmental level for Romania's Participation to the day-ahead and intraday market coupling projects. These projects are currently under development at European level for the implementation of the European energy market.

In accordance with Article 2 from *Regulation 1222/2015 establishing a guideline on capacity allocation and congestion management* (Definitions), these regions are defined as "Capacity Calculation Region (CCRs)", meaning "geographic area in which coordinated capacity calculation is applied". Consequently a CCR should include a set of borders of the bidding zone for which capacity calculation will be coordinated by TSOs in accordance with the aforementioned Regulation.

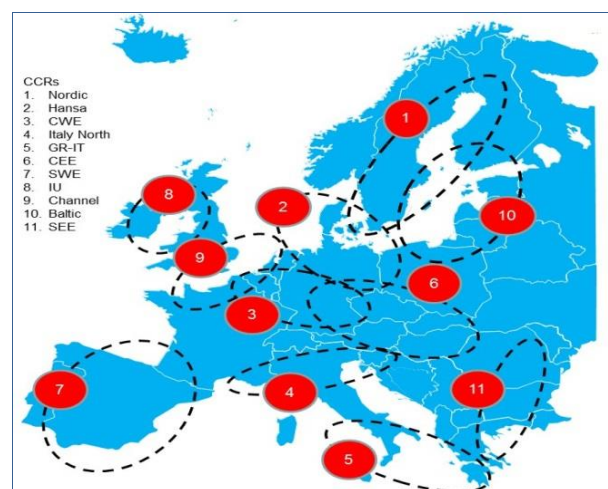
The proposed configuration of cross-border transmission capacity calculation regions (CCR) for all European electricity transmission system borders is a pan-European dynamic and pragmatic approach in the short- and mid-terms, which supports coordination over the borders of bidding zones where the greatest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

The CCRs proposed by the European Transmission and System Operators from ENTSO-E and approved at ACER level by all regulators in the industry provide an optimum utilization of the European transmission infrastructure. In the defined CCRs, interdependences between cross-zonal capacities can be modelled with the highest

accuracy and efficiency while the best level of such cross-zone capacity can be offered on the market. CCRs provide optimization of cross-zonal capacity calculation and allocation according to Article 3(d) from *Regulation 1222/2015 establishing a guideline on capacity allocation and congestion management*, because CCRs institute coordination within the CCR and between CCRs.

The following figure provides the configuration of the 11 CCRs proposed by ENTSO-E:

Figure 30: Configuration of CCRs



In accordance with ACER decision of November 17<sup>th</sup>, 2016, during the pan-European approval of CCRs, European regulators required coupling the central-eastern and central-western European regions into a single capacity calculation region - the CORE region.

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

On August 16<sup>th</sup>, 2016 Transelectrica, together with the 15 Operators of member states in the CORE region, signed a cooperation agreement (CEWE CoA), whereby they express their commitment to cooperate in order to develop a common interconnection capacity calculation methodology and a future implementation base

for the requirements of all grid codes in this most important region defined in Europe.

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

The set of regulations in the new energy legislative package is presumably the most complex yet and includes three Notifications regarding Clean Energy for all Europeans, the Acceleration of Innovation in terms of Clean Energy and an European Strategy for Intelligent Transmission Systems. Additionally, the package includes two proposals to review the Regulations concerning the Internal Market in Electricity and the Functioning of the Agency for the Cooperation of Energy Regulators ACER, four proposals to review the Directives concerning Renewable Energy and Energy Efficiency and the Common Rules for the functioning of the Internal Market in Electricity and the Energy Performance of Buildings.

The Commission also adopted five new Regulation proposals concerning the Preparation for and anticipation of risks in the energy sector, the Governance of the Energy Union and three specific proposals concerning Eco-Design.

All these measures, together with the guidelines for implementation and good practice, aim to mobilize 177 billion euro into public and private investments starting with 2021 and to create 900,000 workplaces, thus generating 1% of the GDP over the next 10 years.

At European level there are currently several ongoing initiatives aiming to implement the eight Grid codes adopted by the European Commission and European Parliament within a comitology process carried out in the 2015-2017 timeframe. These are European Regulation documents (directly applicable law at the level of the EU member states) which regulate the functioning of synchronously interconnected energy systems at pan-European level and the harmonization and integration of national electricity markets into the single European energy market.

In parallel, in the electricity sector, at the Transmission and System Operators level, a series of projects is carried out to investigate several specific aspects in the field of research, development, innovation or challenges pertaining to the implementation of the new legislative package: Clean Energy Package.

The Horizon 2020 program is one of the most important research and innovation programs financed by the European Commission, with a budget of ca. 80 billion euro which will be distributed over a 7-years period (2014-2020).

Within the LCE – 04- 2017 "*Demonstration of system integration with smart transmission grid and storage technologies with increasing share of renewable*" pillar of this project, funds are being allocated for supporting the electricity transmission activity, namely:

- projects are addressed to the ENTSO-E Transmission and System Operators;
- projects must prove a combination of at least two of the following aspects:
  - electricity transmission technologies and large scale generation sources management in the context of increasing the renewable energy sources' share;
  - large scale storage capacity for transmission grids, including different centrally managed storage technologies;
  - communication technologies, real time control instruments in order to increase flexibility in terms of transmission grid operation and to integrate storage facilities, demand-response mechanisms and interfaces with electricity distribution grid operators;
  - new perspectives on wholesale electricity markets facilitating the participation of renewable energy sources, active participation as data aggregators in order to reduce grid operation costs;
  - project proposals shall include existing regulatory framework analyses, applicable codes and standards, business models and pan-European energy market architecture analysis;



- projects shall support the Horizon 2020 program in the smart grid and storage promotion context.

Given the experience and professionalism proven by CNTEE Transelectrica SA in the electricity transmission system operation, the company was selected by the European Commission to be part of the teams of experts for several European projects, some of which being fully financed from structural funds.

Several of these projects are presented below:

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

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

The underlying technologies for the energy system until 2030 and 2050 are still undergoing research and must be fully developed before they can demonstrate their potential value in the new pan-European energy system.

The topic regarding RES (Renewable Energy Source) integration in the energy system (H2020-LCE-2016-2017 program, subject LCE-07-2016-2017) was launched in the European Commission's research & development program. With budget of 4.9 million Euro, the RE-SERVE project is part of this program and it is fully financed from European funds.

The RE-SERVE (Renewables in a Stable Electric Grid) project aims to investigate new concepts in terms of technological system services, in the context of the large scale integration of renewable energy sources in the power systems and the possibilities to use such sources for systems balancing.

The RE-SERVE project is carried out over a 3-year period (2016-2019) and aims to investigate new concepts in terms of technological system services, in the context of the large scale integration of renewable energy sources in the power systems and the

possibilities to use such sources for systems balancing.

This project also aims at implementing renewable energy sources at pan-European level by creating a virtual platform through which the project team members can conduct simulations over different periods of time, based on the data and information provided by the project participants.

The RE-SERVE project caught the attention of the European Commission's evaluators through the relevant topic it approaches - a topic to which CNTEE Transelectrica SA's contribution is considered highly important. Therefore, the company was invited to be part of the project's consortium. The project was rated 14 out of 15 points, thus obtaining full financing from European funds.

CNTEE Transelectrica SA participates in completing the RE-SERVE project on the grounds of the Grant Agreement no. 727481 — RE-SERVE, being part of the consortium designated for this purpose and coordinated by ERICSSON GMBH.

Thus, over the 36-month completion time of the project (October 1<sup>st</sup>, 2016 - September 30<sup>th</sup>, 2019), the team involved from CNTEE Transelectrica SA will allocate 20 person-month for completing the activities related to the following work packages:

- WP1 – RES integration at system level  
- 4 person-month
- WP2 – Frequency stability in the system  
- 4 person-month
- WP5 – Simulation results check  
- 11 person-month
- WP6 – Highlighting the legal and regulatory aspects and the RES appropriate business models  
- 1 person-month

The performances of the new mechanisms shall be investigated via various laboratory simulations in a virtual testing area. All RE-SERVE work packages take into consideration short-term (2016-2017), mid-term (2020+) and long-term (2030+) simulations.

The project is coordinated by Ericsson GmbH (DE), and consortium members are: TRANSELECTRICA (RO), Romanian Energy



Centre (RO), ESB Networks (IE), Flexible Elektrische Netze FEN GmbH (DE), Gridhound UG (DE), Rheinisch-Westfaelische Technische Hochschule Aachen (DE), Universitatea Politehnică din București (RO), University College Dublin (IE), Waterford Institute of Technology (IE); the development term is of three years.

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

- identifying two applications for the transition to the scenario in which renewable sources would be used up to 100% to generate electricity, studying the implications of scenarios in the system architecture and its functionality, taking into account EU's energy policies and the climatic changes (for instance in the SET Plan);

- contributions to design and completion of applications in two European countries (IE, RO).

Financially speaking, CNTEE Transelectrica SA collected the down payment for this project in September 2016, amounting to 145,312.50 euro, representing 75% of the total fundable amount of 193,750 euro for which the Company is eligible. The difference will be collected after the project completion in 2019, based on the final reporting.

### 10.1 CROSSBOW project

The project was classified under the European Commission's Horizon 2020 program on research and innovation, namely the LCE – 04-2017 "Demonstration of system integration with smart transmission grid and storage technologies with increasing share of renewable" pillar. The budget amounts to 17 mil euro and is fully financed from structural funds.

The Crossbow project is one of the largest projects financed on this axis with a value of 22,000,000 euro for a 48-month period in which the project must achieve its stated objective.

The project consortium is made up of 24 partners (from 13 countries):

- 8 transmission and system operators from

the S-E European region

- 1 distribution operator
- 1 Regional Security Center
- 2 large producers
- 5 universities
- 6 industry partners
- 1 association

CROSSBOW aims at sharing resources for the promotion of the cross-border use of renewable energy and storage units, allowing a higher penetration of renewable energy sources and simultaneously reducing operational grid costs and improving the economic benefits of RES and storage units.

The aim is to demonstrate a series of new but complementary technologies which offer transmission system operators a higher flexibility and robustness through the following advantages:

- a better control over the balancing energy at interconnection points;

- new storage solutions - distribution and centralization - offering ancillary services for the functioning of virtual storage installations;

- improving the information and communication technologies - e.g. a better grid examination to allow flexible generation and demand response requests;

- defining a transnational wholesale market, proposing a fair and sustainable remuneration for clean energy by defining new business models to support the participation of new players and cost reduction.

The project started in November 2017 and is currently in the initial stage, defining the details to be focused on for results maximization with a view on the region's energy interest on the mid- and long-term.

Out of the 8 TSOs, Transelectrica is one of the largest and has an important role in this project, both in terms of the grid and the geographical position.

The company will be active in 15 out of the 20 organized work packages and aims to contribute as much as possible in this project which has a high expectation in terms of the significance of the results for the energy systems in the next decade.

Financially speaking, CNTEE Transelectrica SA collected the down payment for this project in December 2017, amounting to 193,802 euro, representing 48.33% of the total fundable amount of 400,969 euro for which the Company is eligible. The difference will be collected after the project completion in 2021, based on the regular reporting.

The integration and trading of products and services developed via CROSSBOW is planned after a period of no more than 36 months since the project completion. This will contribute to the creation of over 70,000 workplaces, will reduce greenhouse gas emission by 3 metric tons and will increase the energy production from renewable sources by 10% (15,2 TWh).

### **TERRE project – Trans European Replacement Reserve Exchange**

The project is an initiative of the ENTSO-E Transmission and System Operators, started against the background of the Balancing code implementation (*Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing*) and aims at completing an informatics platform (LIBRA) dedicated to trading orders for the replacement reserve of participating energy systems in order to allocate these reserves based on the balancing energy necessary for each national Transmission and system Operator.

The LIBRA platform is designed to allow data processing from 50 countries (the replacement reserve being the sole balancing reserve which may be traded on an insular basis at regional level) and to process 500,000 sell/buy orders with a 15-minute resolution, the algorithm being capable to run and display results in less than 3 minutes.

The project was started in 2017 after the completion of the harmonization of the local rules and characteristics for countries which will participate on the replacement reserve market and the completion of the platform design step. The trading platform infrastructure shall be completed in the 2018-2019 timeframe.

### **MARI project - Manually Activated Reserves Initiative**

The project started in 2017 as an initiative of the ENTSO-E Transmission and System Operators and aims to complete the European balancing platform for trading reserves with manual activation for frequency restoration (mFRR), a request of the European Regulation no. 2195/2017.

The expected advantages of the MARI project include:

- increasing the efficiency of the balancing markets at national, regional and pan-European level;
- integrating the balancing markets and promoting balancing services exchanges, while simultaneously ensuring operational safety;
- procurement of balancing services in an objective, fair and transparent manner, thus ensuring liquidity of the balancing markets.

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

In relation to certain TSOs the Company began participating in the project financed through European funds *FutureFlow Designing eTrading Solutions for Electricity Balancing and Redispatching in Europe, section Transmission grid and wholesale market* (ongoing project), which aims at handling a number of aspects in terms of implementing the Grid Code regarding balancing power systems and creating regional markets for system services with emphasis on involving consumers in the balancing process and ensuring an optimal management regarding the coordinated functioning of the European synchronously interconnected system, in the context of an increasing renewable energy rate integrated in the system.

The project is part of the Program for implementing a competitive market at pan-European level, with the completion of the Community targets related to emission reduction (Horizon 2020 – "Call for competitive low-carbon energy", under the "Transmission grid and wholesale market" category) and aims to address a series of operational and market

aspects in the context of the implementation of the new grid codes for balancing power systems and creating regional system services markets. The project is addressed to both Transmission and System Operators and to the electricity market traders and manufacturers of industrial and communication components in the field of electricity.

The project has a ca. 14 million euro budget financed via structural funds and is carried out over a 4-year period, between 2016 and 2020.

The project aims to:

- Study the existing balancing markets in terms of the flexibility potential of controllable consumers (Demand Response) and distributed generating sources. This comprises the study of aspects pertaining to market adaptation for the participation in the secondary control of large wind power plants and the impact of forecast errors related to the wind power production over the secondary control market;
- Develop the architecture of the Future Flow platform for the joint automated activation of the secondary control reserve and identification of implications over re-dispatching. This comprises the analysis of the flexibility of controllable industrial consumers with auto-generation but also with renewable sources with installed capacities higher than 1 MW. Databases from a completed European project will be used, related to the completion of the secondary control, having a database of 18,000 potential clients with consumption levels of over 500,000 kWh/year (approximately 747 industrial and commercial clients);
- Identify the reserves and the participating entities, the processes, the necessary data which will be exchanged for the secondary control reserve and the re-dispatching capabilities;
- Identify the requests pertaining to interactions between secondary control reserve aggregation platforms and the analysis of cyber security concepts related to data transfer.

### **PICASSO project - Platform for the International Coordination of Automated Frequency Restoration and Stable System Operation**

Using the automated frequency restoration reserves at a pan-European level, within a framework regulated by the new European balancing code and in the context of an European balancing market that will lead to the optimization of the dispatching process, mitigation of risks pertaining to power systems security and minimizing balancing costs.

The PICASSO project is an initiative of the ENTSO-E Transmission and system Operators started in the context of implementing the new European legislation in the industry and consists of the completion of an European balancing platform for exchanges between the Transmission and System Operators of automated frequency restoration reserves (aFRR).

The main objectives of the project are:

- design, implementation and operation of an aFRR platform that complies with the requirements of the Balancing code (*Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing*), the System Operation Code (*Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation*) and the CACM Regulation (*Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management*).
- improve the economic and technical efficiency pertaining to the European synchronously interconnected power system operation;
- integration of aFRR European markets.

CNTEE Transelectrica SA currently has the role of observer in the project (this stage does not involve a financial commitment from the Company) and at the end of April 2018 the Company will become a full member.

### **IGCC project - International Grid Control Cooperation**

The IGCC project is the reference project and starting point for creating a single European platform for Imbalance Netting in real time, aiming to reduce balancing energy costs (secondary control range).

In technical terms, this process will lead to the reduction of the number of orders (requests) for loading/unloading generated by the central frequency/power regulator on the secondary control groups, with a direct influence on lowering the level of wear and tear and the extension of the availability period on the Balancing Market.

The IGCC initiative started in 2010 by the operators in Germany and subsequently extended to the systems from Central Europe, representing a way to optimize the exchange frequency/power secondary control by reducing the counteractions of regulators belonging to the member operators, resulting in a more judicious use of reserves at the level of the interconnected system.

11 Transmission and system Operators from 8 countries are currently involved in the project as members: Germany, Denmark, The Netherlands, Switzerland, The Czech Republic, Belgium, Austria and France (50 HzT, Amprion, APG, CEPS, Elia, ENDK, RTE, Swissgrid, TTB, TTG, TransnetBW).

CNTEE Transelectrica SA currently has the status of observer and will start the joining process in November 2018 (provided that certain requirements are implemented in the SCADA and the communications system) and the interoperability and operation tests will start in June 2019.

### **Synchronous interconnection of the systems from Ukraine and the Republic of Moldova with the European continental system**

CNTEE Transelectrica SA is the Transmission and System Operator who supports within ENTSO-E the synchronous interconnection of the systems from Ukraine and the Republic of Moldova with the European continental system. The request regarding the analysis of this interconnection was approved by UCTE

(currently ENTSO-E Continental Europe) in November 2006. The interconnection request was made taking into consideration that the power systems of Ukraine and the Republic of Moldova will detach from the ISP/UPS system and will form a "single frequency control block".

The feasibility study over the synchronous interconnection of the systems from Ukraine and the Republic of Moldova with the European continental system was carried out between November 2014 and January 2016.

For this project, the Ministry of Economy from the Republic of Moldova obtained European funds (within the Joint Operational Program RO-UA-MD 2007÷2013) together with the Romanian Ministry of Economy and the Ukrainian Ministry of Energy and Coal. The Ministry of Economy from the Republic of Moldova was the beneficiary of the project and the other two ministries were partners.

CNTEE Transelectrica SA, together with other transmission operators from other countries (EMS-Serbia, MAVIR-Hungary, PSE-Poland, ESO-EAD-Bulgaria) have formed a consortium for completing this study. CNTEE Transelectrica SA was the consortium leader and was responsible with project management. Bernard Energy Advocacy (Belgium) acceded to the consortium in order to handle legislative matters.

The feasibility study recommended the technical and regulatory measures to be taken in the power systems of Ukraine and the Republic of Moldova in order to achieve the synchronous interconnection.

In June 2017, Ukrenergo, Moldelectrica and the majority of the Transmission and System Operators from Continental Europe have signed the Agreements on the interconnection conditions for the systems in Ukraine and the Republic of Moldova with the Continental Europe system. The parties agreed upon Catalogue of Measures and the next road-map of actions preceding the interconnection for the two countries:

- Additional detailed studies shall be carried out in order to specifically define all necessary technical measures. The studies shall be carried out by an ENTSO-E Transmission and System Operators

consortium which will use measurements made at the most important generating units from Ukraine and the Republic of Moldova in order to identify the mathematical models parameters of corresponding generators and regulators. CNTEE Transelectrica SA shall once again be the consortium leader.

- Necessary technical and regulatory measures shall be implemented in Ukraine and the Republic of Moldova.
- Isolated function tests shall be carried out on the systems in Ukraine and the Republic of Moldova.
- Interconnection function tests shall be carried out with the European continental system.





**Transelectrica®**

Societate Administrată în Sistem Dualist

# Financial Report



## 11 Stand-alone financial results 2017

In 2017, Transelectrica recorded a decrease in the financial profitability compared to 2016. This development was mainly caused by the lowering of the average tariffs approved by ANRE for transmission services.

The factors that determined this development were:

- Decrease in transmission revenues by 8% caused by the negative correction applied by ANRE to the Company as of July 1<sup>st</sup>, 2016 and July 1<sup>st</sup>, 2017.
- Decrease in interconnection capacity allocation revenues by 7.9%.
- Increase in the electricity quantity transported through the power networks of the Power Transmission Grid, the energy quantity charged by the Company being with 2.3% higher than in the previous year, against the background of internal consumption increase.

Thus, EBITDA from allowed-profit activities decreased by ▼35%, reaching the value of 383 mil lei compared to 587 mil lei. At the same time, the zero-profit activities (technological system services) registered a 79 mil lei loss as of December 31<sup>st</sup>, 2017, compared to the 88 mil lei profit registered as of December 31<sup>st</sup>, 2016.

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.

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.

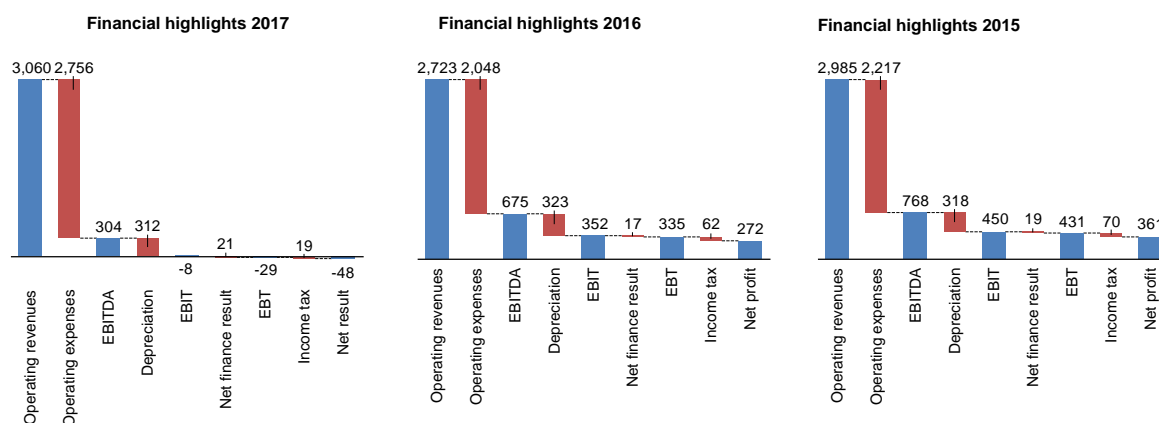
Additionally, certain multiannual coordinates for the 5 years have been subject to an interim review (investment plan, ARB opening balance, controllable OPEX, non-controllable OPEX, efficiency factor, tariffable energy quantity). The review regulator of the parameters initially set forth at the beginning of the regulatory period based its actions upon those hypothesis used in the tariff calculation with the real values registered by the Company and the increase in predictability.

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

- Financial revenues registered a 10.9 mil lei decrease in 2017 compared to 2016, mainly determined by the decrease in revenues from the exchange rate differences.

Financial expenses registered a 6.8 mil lei decrease in 2017 compared to 2016, mainly determined by the evolution of the national currency compared to the currencies in which investment loans are contracted.

Figure 31: Net result (mil lei)



### 11.1 Separate account of profit and loss

Table 25: Separate account of profit and loss

Mil. Lei	2017	2016	2015	17/16
Charged energy volume (TWh)	54.75	53.52	52.47	▲ 2.3%
<b>ALLOWED PROFIT ACTIVITIES</b>				
<b>Operational revenue</b>	<b>1,173</b>	<b>1,260</b>	<b>1,400</b>	<b>▼ 7%</b>
Transmission, including revenues from interconnection capacity allocation	1,055	1,146	1,285	▼ 8%
Functional system services and unplanned exchanges	68	68	69	▲ 1%
Other revenues	50	46	46	▲ 10%
<b>Operational Costs</b>	<b>(790)</b>	<b>(672)</b>	<b>(657)</b>	<b>▲ 18</b>
System operation costs	(258)	(231)	(232)	▲ 12%
Maintenance (including IT&C) and repairs	(85)	(88)	(89)	▼ 4%
Personnel expenses	(179)	(212)	(186)	▼ 16%
Other expenses	(269)	(141)	(150)	▼ 90%
<b>EBITDA</b>	<b>383</b>	<b>587</b>	<b>743</b>	<b>▼ 35%</b>
Depreciation	(312)	(323)	(318)	▼ 4%
<b>EBIT</b>	<b>71</b>	<b>264</b>	<b>424</b>	<b>▼ 73%</b>
<b>ZERO-PROFIT ACTIVITIES</b>				
<b>Operational revenue</b>	<b>1,887</b>	<b>1,463</b>	<b>1,585</b>	<b>▲ 29%</b>
Technological System Services	582	649	662	▼ 10%
The Balancing Market	1,305	814	923	▲ 60%
<b>Operational Costs</b>	<b>(1,966)</b>	<b>(1,375)</b>	<b>(1,561)</b>	<b>▲ 43%</b>
Technological System Services	(661)	(561)	(638)	▲ 18%
The Balancing Market	(1,305)	(814)	(923)	▲ 60%
<b>EBIT</b>	<b>(79)</b>	<b>88</b>	<b>24</b>	<b>n/a</b>
<b>ALL ACTIVITIES (WITH ALLOWED PROFIT AND ZERO-PROFIT)</b>				
Operational revenue	3,060	2,723	2,985	▲ 12%
Operational Costs	(2,756)	(2,048)	(2,217)	▲ 35%
<b>EBITDA</b>	<b>304</b>	<b>675</b>	<b>767</b>	<b>▼ 55%</b>

Mil. Lei	2017	2016	2015	17/16
Depreciation	(312)	(323)	(318)	▼4%
<b>EBIT</b>	<b>(8)</b>	<b>352</b>	<b>449</b>	<b>n/a</b>
Financial Result	(21)	(17)	(19)	▼24%
<b>EBT</b>	<b>(29)</b>	<b>335</b>	<b>430</b>	<b>n/a</b>
Income tax	(19)	(62)	(70)	▼69%
<b>Net result</b>	<b>(48)</b>	<b>272</b>	<b>360</b>	<b>n/a</b>
Net result per share	(0.65)	3.72	4.91	

### 11.1.1 Allowed profit activities

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

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

Table 26: Revenues from allowed profit activities

Mil. lei	2017	2016	2015	16/15
<b>Operational revenue</b>	<b>1,173</b>	<b>1,260</b>	<b>1,400</b>	<b>▼7%</b>
<b>Transmission</b>	<b>1,055</b>	<b>1,146</b>	<b>1,285</b>	<b>▼8%</b>
Revenues from transmission tariffs	971	1,057	1,174	▼8%
Revenues from allocating the interconnection capacity	76	82	102	▼8%
Revenues from reactive energy	8	8	8	▲9%
<b>Functional System Services</b>	<b>68</b>	<b>68</b>	<b>69</b>	<b>▲1%</b>
Revenues from functional system services tariffs	66	66	68	▲0%
Revenues from unplanned shifts on DAM	2	1	1	▲74%
<b>Other revenues</b>	<b>50</b>	<b>46</b>	<b>46</b>	<b>▲10%</b>

Against the background of a 2.3% increase in the electricity quantity delivered to consumers in 2017 compared to 2016, the revenues from the transmission service registered an 8% decrease and the functional system services registered an insignificant increase of 1.3%, mainly determined by the negative adjustment of tariffs starting with July 1<sup>st</sup>, 2016 and July 1<sup>st</sup>, 2017.

Thus, the revenues from the transmission activity registered a ca. 8.1% decrease in 2017, from 1,057 mil lei in 2016 to 971 mil lei in 2017, against the background of a negative

adjustment of 10.2% of the average tariff for the transmission service.

The revenues from the interconnection capacity allocation registered a decrease of -7.9% related to the usage level of the interconnection capacity availability by the traders on the energy market.

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 ("Use It Or Sell It") principle was implemented, according to which in the case of traders notifying a smaller capacity than that gained under annual and/or monthly auctions organized by Transelectrica, their capacity difference which was not notified will be sold during daily auctions. Transelectrica will remunerate the trader for the spare capacity, calculated as product between (i) the difference between the capacity gained in the long-term and the notified capacity and (ii) the price obtained at the daily auctions. On the Hungarian border the direction is reversed, meaning that MAVIR compensates the participants for the spare 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.

The functional system services also registered an insignificant decrease of 0.2% during 2017, from 66.14 mil lei in 2016 to 65.98 mil lei in 2017, against the background of a 12% decrease of the average tariff.

Other revenues adjacent to the transmission service (reactive energy, international transit) have maintained at level close to the ones registered in the previous year.

Figure 32: Revenues from allowed profit activities (mil lei)

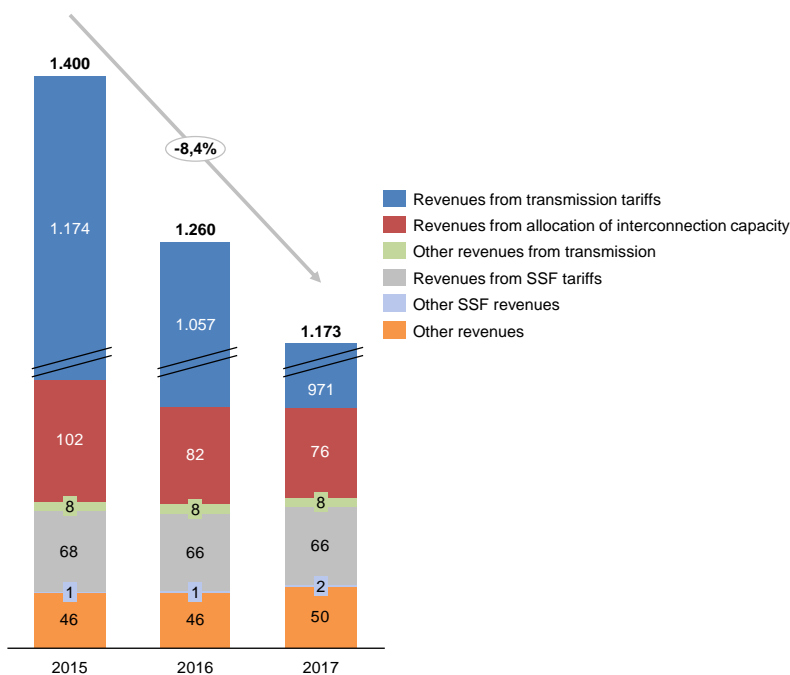


Table 27: Expenses generated by the allowed profit activities

Mil lei	2017	2016	2015	17/16
<b>Operational Costs</b>	<b>790</b>	<b>672</b>	<b>657</b>	<b>▲ 18%</b>
<b>System operation costs</b>	<b>258</b>	<b>231</b>	<b>232</b>	<b>▲ 12%</b>
Expenses on own technological consumption	207	183	187	▲ 13%
Expenses on congestions	0	3	1	▼ 92%
Expenses on electricity consumption in PTG substations	14	15	14	▼ 6%
Expenses regarding the functional system services	16	13	12	▲ 29%
Expenses on Inter TSO Compensation (ITC)	20	17	18	▲ 19%
OPCOM administration expenses	0	0	0	
<b>Repairs and maintenance</b>	<b>85</b>	<b>88</b>	<b>89</b>	<b>▼ 4%</b>
<b>Personnel expenses</b>	<b>179</b>	<b>212</b>	<b>186</b>	<b>▼ 16%</b>
<b>Other Expenses</b>	<b>269</b>	<b>141</b>	<b>150</b>	<b>▲ 90%</b>
<b>Depreciation</b>	<b>312</b>	<b>323</b>	<b>318</b>	<b>▼ 4%</b>
<b>Operational costs inclusive of depreciation</b>	<b>1,102</b>	<b>996</b>	<b>975</b>	<b>▲ 11%</b>

The total operational expenses (including depreciation) registered in 2017 rose by 4% compared to the similar period of the previous year (1,026 mil lei, up from 1,072 mil lei).

### System operation costs

System operation costs registered a 11.7% decrease in 2017 compared to 2016, from 231 mil lei to 258 mil lei, mainly due to the increase in OTC expenses.

The total cost with the acquisition of energy necessary to cover the own technological consumption increased by 13.06% in 2017 compared to 2016. The positive evolution of the total cost in 2017 was determined by the increase in prices on the Day-Ahead Market (DAM), Intraday Market (IDM) and Balancing Market (BE) for the acquisition of electricity for the own technological consumption, from 180.3 lei/MWh in 2016, to 213.7 lei/MWh, against the background of a ca. 4.6% decrease in the electricity quantity necessary to cover OTC in the PTG (from 1,015 GWh in 2016, to 968 GWh in 2017).

Average prices with which Transelectrica procured energy for its own technological consumption registered increases in 2017 compared to 2016 for procurements on the Centralized Market for Bilateral Contracts

("CMBC") 2.5%, the spot market ("DAM") - 47.1% and the balancing market ("BE") - 22.3%.

Figure 33: Procuring mix depending on the quantities purchased from markets (GWh)

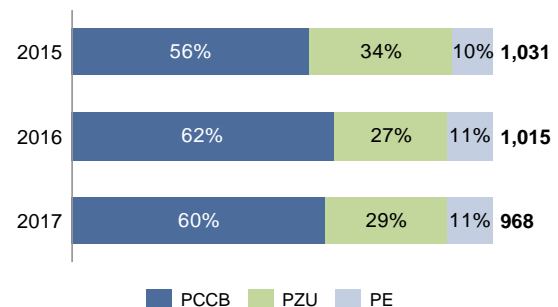


Figure 34: Quantities purchased from markets (GWh)

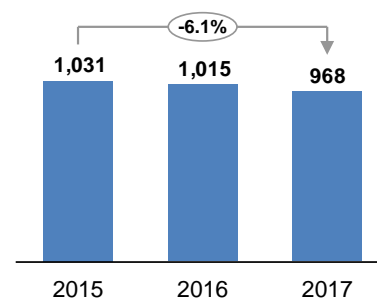
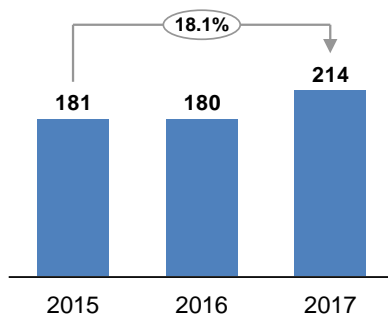


Figure 35: Average unit price of energy purchased for OTC (lei)



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

In 2017, the congestion value decreased by 3 mil lei compared to the 2016 value due to the extreme meteorological conditions of January 2016 in Dobrogea.

### Expenses regarding the functional system services

The expenses on the functional system services represent the non-contracted international exchanges of electricity with the neighboring countries and the expenses on unplanned exchanges on the day-ahead market (DAM).

The ca. 26.7% increase in expenses regarding functional system services was determined by the increase in expenses on the balancing market and the day-ahead market in terms of unplanned electricity exchanges (exports) with neighboring countries interconnected in the NPS, due to the price increase on the centralized electricity markets.

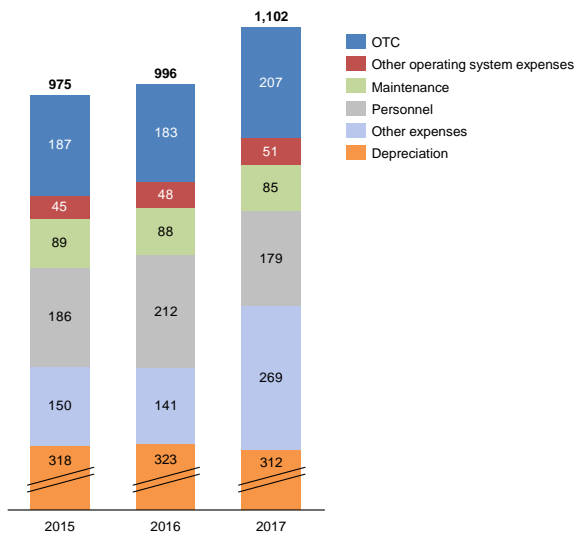
### Repairs and maintenance

Expenses on maintenance works decreased by 3.7% in 2017 (from 88 mil lei in 2016 to 85 mil lei in 2017) without an impact on the operational safety of the NPS.

The annual maintenance program for 2017 was carried out providing priority to works/services that lead to increasing the operational safety of installations, or to completing the contracted works/services and those contributing to the good operation of installations. We must also take into account the perspective of implementing the remote control and supervision program for electric installations, which requires the rehabilitation of electric equipment and will lead to reduced personnel and operational expenses.



Figure 36: Expenses generated by the allowed profit activities (mil lei)



**Other operating expenses**

NAFA control over the 2005-2010 period took place between 14.12.2011-30.06.2017. Following the inspection, a tax inspection report was finalized with the Taxation Decision no. F-MC 439 / 30.06.2017, supplemented with additional notes on 12.07.2017.

The amount of 99,891 is made up of 99,013 (according to the Decision mentioned above) and to which have been added accessories in the amount of 877, for the period 01.07.2017-26.09.2017, the date of extinguishment of the obligation to NAFA.

The amount of 99,013 is made up of the amount of 35,105 representing additional debts (profit tax and VAT) and 63,908 of the tax related tax liabilities (interest / increase and delay penalties). The amount of 99,927 is influenced by the inclusion of the amount of 99,013, according to the Taxation Decision no. F-MC 439 / 30.06.2017 issued on 12.07.2017 by NAFA.

The additional tax liability structure in the amount of 35,105 is shown in the table below:

Year	2005*	2006*	2007*	2008	2009	2010	Total
Income tax	231.5	13,577.5	5,224.0	809.4	1,978.9	1,671.3	<b>23,492.6</b>
VAT	0.0	76.4	6,199.6	772.7	2,416.9	2,147.0	<b>11,612.5</b>
<b>TOTAL</b>	<b>231</b>	<b>13,654</b>	<b>11,424</b>	<b>1,582</b>	<b>4,396</b>	<b>3,818</b>	<b>35,105</b>

\*Note:

- 1) Period 1: Sept 2005 - Nov 2007: 123 missing bills, justified by the Company as burned in the fire that occurred on the night of June 26-27, 2009, at the work point of the Millennium Business Center building in Armand str. Calinescu nr. 2-4, sector 2;
- 2) Period 2: Dec 2006 - May 2007: 349 bills found missing in the same fire
- Period 1: Sept 2005 - Nov 2007: 123 missing invoices, justified by the Company as burned in the fire that occurred on the night of June 26-27, 2009, at the work point of the Millennium

- Business Center Building in Armand Calinescu Street no. . 2-4, sector 2;
- 2) Period 2: Dec 2006 - May 2007: 349 bills found missing in the same fire
- 3) The VAT for the period 1 for a number of 123 invoices and not found in the above amounts, being retained in another fiscal inspection report (RIF) issued in 2011, litigation lost by the Company on 30.04.2014 and definitively on 01.03.2017. For the amount paid by the Company (44,443) there were adjustments for the impairment of the receivable in 2012 and 2014. In 2017, the

receivable loss expense was recorded, together with the reversal of the depreciation adjustment, with a nTVA effect for the sept 2005-nov 2006 for a number of 123 invoices was retained in another tax inspection report issued in 2011, the litigation for the amount paid by the Company (44,443) was definitively lost on March 1, 2017

4) Profit tax on the 123 burned invoices: 13,735

5) Profit tax on the 349 burned invoices: 4.787

6) VAT collected for the 349 burned invoices: 5.695

Amounts highlighted under 4), 5) and 6) represent the amounts of the Fiscal report ended on 30.06.2017.

Interests / increases and late payment penalties from the beginning of the period up to the date of execution are shown below:

	Amount 2005-2016**	Amount 2017	Total
Interest/ delay increases and penalties for Income Tax	47,211	1,704	<b>49,915</b>
Interest/ delay increases and penalties for for VAT	14,583	362	<b>14,946</b>
<b>TOTAL</b>	<b>62,794</b>	<b>2,066</b>	<b>63,860</b>

\*\*Note:

Additionally amount for 123 burned invoices : 31,429

Additionally amount for 349 burned invoices : 22,591

Apart from the details presented in the above mentioned Memorandums, the NAFA findings for the 2005-2010 period include both additional debits and accessories corresponding to the unrealized system technological services provided in the framework agreements approved by ANRE, for which Transelectrica records revenues from penalties. At the same time, NAFA retained additional debits and accessories corresponding to the findings of the Court of Accounts regarding the expenditures that were

not aimed at the continuous training of the employees and which are not forms of professional training and for which the RCC Decision no. 14/2011.

In 2017, the Company challenged the NAFA Taxation Decision and, given that until March 13, 2018, the NAFA had failed to resolve the appeal, it requested the annulment of the Decision by the Court of Appeal of Bucharest file No 1802/2/2018.

Thus, by eliminating the amount of 97,824 related to the debits and the interest / penalties and the delay penalties retained in the NAFA Decision from the Other Expenses from the operation, the recalculated operating result is as follows:

th lei	2017	2016
<b>Revenues</b>		
Transmission revenues	1,054,629	1,146,257
Revenues from system services	650,747	716,340
Revenues on the balancing market	1,304,613	814,080
Other revenues	50,328	45,827
<b>Total revenues</b>	<b>3,060,317</b>	<b>2,722,503</b>
<b>Operating expenses</b>		
Expenses for operating system	(257,917)	(230,757)
Expenses for balancing market	(1,304,613)	(814,080)
Expenses regarding the technological system servic	(661,323)	(561,027)
Depreciation	(311,853)	(323,363)
Personnel expenses	(178,575)	(211,867)
Expenses for repair and maintenance	(84,765)	(88,394)
Expenses for materials and consumables	(8,317)	(7,676)
Other operating expenses	(162,861)	(133,720)
<b>Total operating expenses</b>	<b>(2,970,225)</b>	<b>(2,370,885)</b>
<b>Operational result</b>	<b>90,092</b>	<b>351,618</b>

The Company considered the taxation base was not reasonably determined by ANAF depending on the fully regulated nature of such activity on the electricity market, but it was set proportionally to the number and value of invoices during the verified time interval. Transelectrica deemed itself entitled to take proceedings in court because it considers ANAF did not take into account all the data and documents relevant for estimation, as provided in the Fiscal procedural code applicable then. Thus the Company took ANAF to the Appeal Court of Bucharest in August 2012 to recover the amount and requested to admit the document proof and the judiciary accounting expertise proof.

On 18 September 2013 the expertise report was issued and submitted to the case file on the 20 September 2013 term. On the 18 October 2013 term the parties expressed objections to the judiciary expertise report, which were admitted by the Appeal Court on the 15 November 2013 term and were notified to the designated expert. On the 7 March 2014 term the expert submitted the answer to the Company's objections. As against the revenues taken into account by ANAF, used by ANAF when estimating the collected value added tax amounting to 16,303, the judiciary accounting expertise report found unjustified revenues in sum of 551 to which sum the value added tax and accessories to it should have been calculated. The hearing was deferred in order to acknowledge the answer to the objections made to the expertise report.

On the hearing date 30.04.2014 the settlement pronounced by the first instance, the Appeal Court Bucharest, Section VIII of Administrative and Fiscal Disputes (Ruling 1356/2014) in File 6657/2/2012 was: "Denies the request of claimant CNTEE Transelectrica SA (Contestation against the Administrative fiscal deed of NAFA)".

The Company filed appeal by requesting to be set within the term submitted in this file, with hearing term set on 07.04.2016, session that took place in the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section. On 07.04.2016 a new term was set on 02.06.2016 for absence of procedure, term when the instance deferred pronouncement on 16.06.2016.

On this term the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section pronounced ruling 1945/16.06.2016, stipulating as follows: "Admits the request and resets the recurrent-claimant within the appeal filing term. Denies as groundless the appeal filed by the National Power Grid Company Transelectrica against Sentence 1365 of 30 April 2014 of the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes section. Irrevocable. Pronounced at public hearing today, 16 June 2016". Ruling 1945/16.06.2016 pronounced by the High Court of Cassation and Justice was notified to the Company by photocopy.

Contest for cancellation was filed against ruling 1945/16.06.2016 submitted to the High Court of Cassation and Justice. On 01.03.2017 the High Court of Cassation and Justice decided in ruling 779 as follows: "denies the exception of inadmissibility of contestation for cancellation filed by contender Transelectrica SA, invoked by statement by the respondent in appeal General Directorate Administrating Large Tax Payers. Denies as groundless the contestation for cancellation filed by contender Transelectrica SA against civil ruling 1945 of 16 June 2016 of the High Court of Cassation and Justice, Section of administrative and fiscal disputes, pronounced in file 6657/2/2012. Irrevocable". Until the elaboration date of these financial statements the Company has not received the printed ruling 779/01.03.2017.

The additional payable liabilities set by ANAF-DGAMC under the taxation decision 62/2011 were registered under "other operational expenses" by including the provision constituted in the financial years 2012 and 2014 into revenues.

- recording under "operational expenses regarding depreciation allowances for current assets" the depreciation allowances for:
  - Elcomex IEA SA in sum of 31,868;
  - Arelco Power SRL in sum of 18,782;

- other uncertain clients and sundry debtors in sum of 7,602 (Elsaco Energy SRL, Eva Energy, Enol Grup SA, CET Govora SA, PetProd SRL (etc)

### 11.1.2 Zero-profit activities

Table 28: Summary of revenues from zero-profit activities

Mil. lei	2017	2016 restated	2015	17/16
<b>Operational revenue</b>	<b>1,887</b>	<b>1,463</b>	<b>1,585</b>	<b>▲ 29%</b>
Technological System Services	582	649	662	▼ 10%
The Balancing Market	1,305	814	923	▲ 60%

In 2017, revenues from technological system services decreased by 66 mil lei compared to 2016 as a result of reduced tariffs applicable to such services starting with July 1<sup>st</sup>, 2016 and July 1<sup>st</sup>, 2017, but also due to a proper administration of system services under operational safety conditions of the NPS.

In 2017, revenues from the balancing market registered an increase of 491 mil lei compared to 2016, determined by:

- the high degree of unpredictability and volatility of production from renewable sources (especially wind).
- over-contracting / subcontracting on the markets prior to the balancing market (given that PRE s did not have significant notification imbalance values) and reduced participation / trading on the intra-day electricity market. The increasing of the

negative imbalance registered at the level of the suppliers of electricity on the balancing market, ie increasing the imbalance between the notified net contractual position and the actually supplied energy;

- the very low temperatures recorded in the first quarter of 2017, which generated the recording of higher values of the electricity consumption in the operation of the NES;
- the increase in electricity consumption amid the severe weather phenomena recorded in July and August 2017 (heat in late July and early August, strong wind with storm in July, so the production in wind power plants varied a lot during the day and with large production variations from one hour to the next);
- Hydraulic evolution (low hidraulicity):

Table 29: Summary of expenses from zero-profit activities

Mil. lei	2017	2016	2015	17/16
<b>Operational Costs</b>	<b>1,966</b>	<b>1,375</b>	<b>1,561</b>	<b>▲ 43%</b>
Technological System Services	661	561	638	▲ 18%
The Balancing Market	1,305	814	923	▲ 60%

Expenses with technological system services carried out have registered a 100 mil lei increase in 2017 compared to 2016, determined by the higher purchase prices for technological system services on the competitive market compared to the regulated purchase prices.

The technological system services are purchased by the Company from producers in order to comply with the operational security limits of the NPS and of the quality of the electricity transmitted at the parameters

required by the technical norms in force. The contracting of these services is performed:

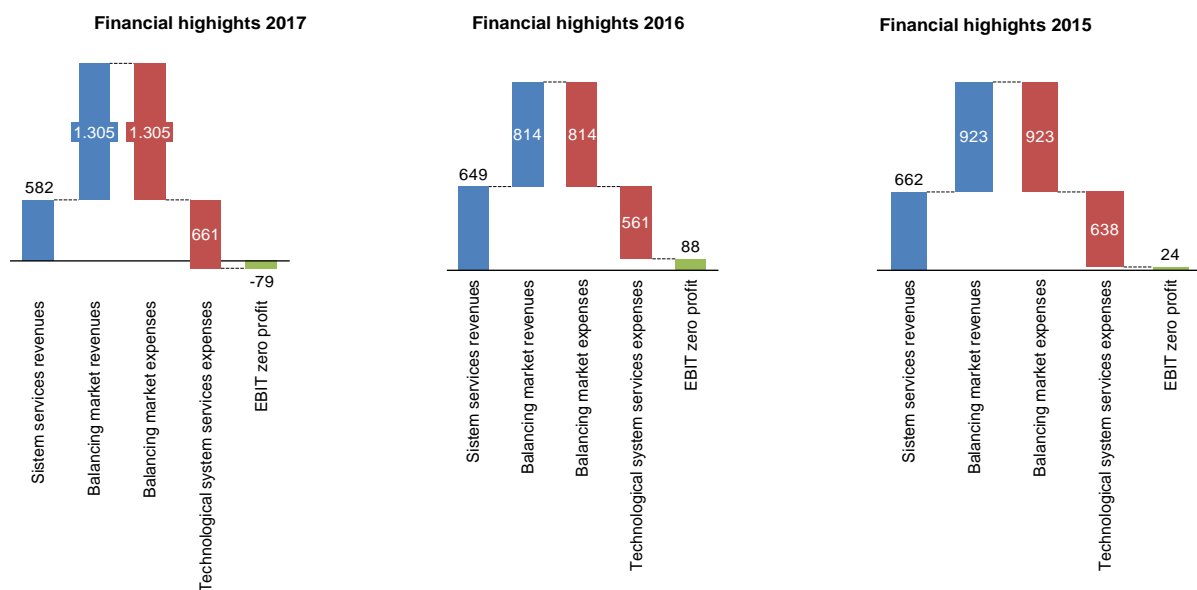
- under regulated regime, based on Government and ANRE decisions;
- through competitive mechanisms.
- According to GD no. 138/April 8<sup>th</sup>, 2013 on the adoption of measures regarding the electricity supply security, the Company purchased technological system services according to the terms of the regulations issued by the National Energy Regulatory Authority (ANRE), as follows:

- For the period January 1<sup>st</sup> - March 31<sup>st</sup>, 2017, the purchase of technological system services was conducted in the regulatory regime (slow tertiary reserve) according to GD no. 844/November 9<sup>th</sup>,
- 2016, as subsequently amended and supplemented, by which the "Winter Program in the Energy Sector for Assuring the safety and stability of the NES" was approved.
- In the timeframe January 1<sup>st</sup> - June 30<sup>th</sup>, 2017, the purchase of the ancillary services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 1035/June 22<sup>th</sup>, 2016) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 1034/June 22<sup>th</sup>, 2016).
- In the timeframe July 1<sup>st</sup> – 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).

Transelectrica re-invoices the value of the technological system services purchased from producers, to the electricity suppliers licensed by ANRE, who include this cost further down the supply chain to the end consumer who ultimately benefits from these services.

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

Figure 37: Results of zero-profit activities (mil lei)



### 11.2 Financial result

The net financial result (loss) registered by the Company as of December 31<sup>st</sup>, 2017 increased by 4.1 mil lei compared to 2016.

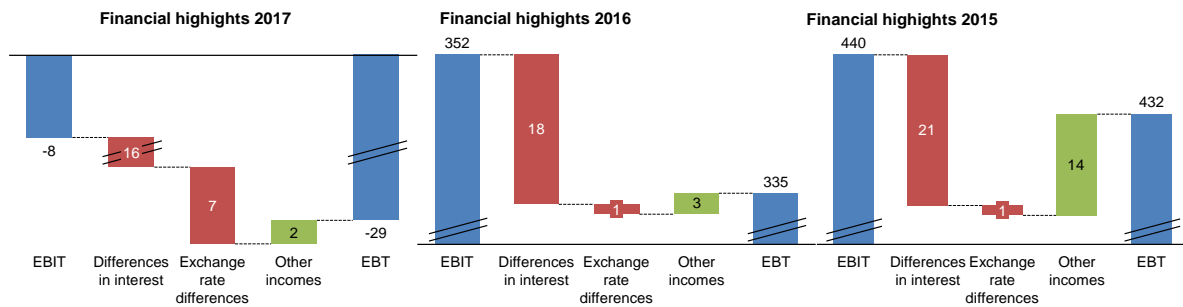
The increase of the net financial result (loss) regarding the exchange rate differences in 2017 compared to 2016, amounting to 6 mil lei, was influenced by the evolution of the

exchange rate of the national currency in relation to foreign currencies in which the Company has contracted bank loans for financing the investment programs (Euros, Dollars).

Table 30: Exchange rate evolution

Lei	31-Dec-17	31-Dec-16	31-Dec-15	17/16
1 EUR	4.6597	4.5411	4.5245	▲ 2.6%
1 USD	3.8915	4.3033	4.1477	▼ 9.6%
100 JPY	3.4574	3.6834	3.4453	▼ 6.1%

Figure 38: Financial results (mil lei)



### 11.3 Balance sheet – financial position

Mil. lei	2017	2016 restated	2015	17/16
<b>Fixed Assets</b>				
Property, Plant and Equipment	3,044	3,190	3,341	▼ 5%
Intangible assets	16	14	35	▲ 8%
Financial assets	78	78	56	0%
Long-term receivables	0	10	0	n/a
<b>Total</b>	<b>3,138</b>	<b>3,292</b>	<b>3,432</b>	<b>▼ 5%</b>
<b>Current assets</b>				
Inventories	32	30	34	▲ 5%
Customers and assimilated accounts	819	852	723	▼ 4%
Other financial assets	0	135	70	n/a
Cash and cash equivalents	521	934	974	▼ 44%
<b>Total</b>	<b>1,371</b>	<b>1,951</b>	<b>1,802</b>	<b>▼ 30%</b>
<b>TOTAL ASSETS</b>	<b>4,509</b>	<b>5,243</b>	<b>5,234</b>	<b>▼ 14%</b>
<b>Shareholders' equity</b>				
Share capital	733	733	733	▼ 0%
Retained earnings	1,261	1,602	1,488	▼ 21%
Reserves	723	772	809	▼ 6%
<b>Total</b>	<b>2,717</b>	<b>3,108</b>	<b>3,029</b>	<b>▼ 13%</b>
<b>Non-current liabilities</b>				
Loans	195	502	635	▼ 61%



Other liabilities	484	503	532	▼ 3%
<b>Total</b>	<b>684</b>	<b>1,005</b>	<b>1,167</b>	<b>▼ 32%</b>
<b>Short-term liabilities</b>				
Loans	317	138	167	▲ 129%
Trade payables	700	874	776	▼ 20%
Other liabilities	91	118	95	▼ 23%
<b>Total</b>	<b>1,108</b>	<b>1,130</b>	<b>1,038</b>	<b>▼ 2%</b>
<b>Total liabilities</b>	<b>1,792</b>	<b>2,135</b>	<b>2,205</b>	<b>▼ 16%</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>4,509</b>	<b>3,738</b>	<b>5,234</b>	<b>▼ 14%</b>

## Assets

**Fixed assets** registered a ca. 5% decrease at the end of 2017, mainly following the registration of tangible and intangible asset depreciation and due to the increase of the amounts related to property, plant and equipment in progress.

In 2017, the Company recorded an increase in value of property, plant and equipment in progress, particularly represented by the investment works in high voltage electricity lines, and the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the commissioning of the investment objectives, as follows:

Tangible assets were not revalued during 2017. The management concluded that the market prices didn't change significantly compared to 2016, when the Company conducted the last revaluation, and there is no indication of impairment of the tangible assets held by the Company both from internal and external sources.

On December 31<sup>st</sup>, 2017 the Company no longer registers long-term receivables representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high-efficiency cogeneration promotion, following the integral collection of the amount of 4.6 mil lei representing the overcompensation for the year of 2016, amount that should have been collected starting with the month of October 2018, according to the concluded agreements.

**Current assets** Current assets recorded a 30% decrease as of December 31<sup>st</sup>, 2017

(1,371 mil lei) compared to the value registered as of December 31<sup>st</sup>, 2016 (1,951 mil lei), mainly determined by the 44% decrease in cash and cash equivalents (521 mil lei as of December 31<sup>st</sup>, 2017 compared to 934 mil lei as of December 31<sup>st</sup>, 2016) and the annulment of bank deposits with maturity over 90 days, which on December 31<sup>st</sup>, 2016 amounted to 135 mil lei (recorded under "Other financial assets").

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

- the decrease in the electricity quantity delivered to consumers in December 2016, compared to December 2017;
- decrease of the average tariff approved by ANRE for these services

On December 31<sup>st</sup>, 2017, the Company registered receivables to be collected from the bonus type support scheme for promoting the high-efficiency cogeneration in a proportion of approximately 26% (December 31<sup>st</sup>, 2016 – 22%) 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 on the overcompensation of the activity regarding the support scheme for the

year 2016, for which invoices were issued in the month of March 2017.

In the timeframe January 1<sup>st</sup> – December 31<sup>st</sup>, 2017, the amounts related to the bonus type support scheme have increased compared to December 31<sup>st</sup>, 2016, mainly due to the overcompensation decisions for 2016, issued in 2017.

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 – 63.4 mil lei and CET Govora SA – 13.2 mil lei;
- undue bonus for 2014 amounting to 3.9 mil lei, namely from RAAN – 2 mil lei, CET Govora – 1.9 mil lei;
- undue bonus for 2015 amounting to 0.5 mil lei, namely from CET Govora – 0.53 mil lei.
- overcompensation for 2015 in the amount of 9.7 mil lei, namely from Electrocentrale Oradea (debt taken over by Termoficare Oradea);
- undue bonus for 2016 amounting to 56.7 mil lei, namely from Electrocentrale Bucuresti – 56.7 mil lei;
- cogeneration contribution not collected from the suppliers of energy consumers, amounting to 2 mil lei, namely from: Transenergo Com – 5.8 mil lei, PetProd – 4.3 mil lei, Romenergy Industry – 2.7 mil lei, RAAN – 2.4 mil lei, Arelco Power – 2.4 mil lei, UGM Energy – 1.8 mil 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 Bucuresti, CET Govora) that have not agreed to this way of discharging the reciprocal receivables and debts, the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no. 116/2013 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.

On December 31<sup>st</sup>, 2017, other receivables amounting to 161 mil lei mainly include:

- interest on late payments computed for clients in default of payment, amounting to 65 mil lei (of which the amount of 26 mil lei represents penalties related to the support scheme); The highest interests on late payments have been registered by the following clients: RAAN (16.9 mil lei), SC CET Govora (9.6 mil lei), SC Eco Energy SRL (8.9 mil lei), SC Petprod SRL (8.9 mil lei), Total Electric Oltenia (3.3 mil lei), Arcelor Mittal Galati (2.3 mil lei), Also Energ (2.1 mil lei). Impairment adjustments were recorded for the interest on late payments calculated for the late payment on receivables from the operational activity;
  - compensations owed by suppliers for not delivering electricity (Arelco Power 2.8 mil lei and Enol Grup 2.5 mil lei).
  - Impairment adjustments were recorded for the compensations owed by suppliers from operating activities;
  - down payments made to the supplier ELCOMEX – IEA SA amounting to 31.2 mil lei for which penalties amounting to 0.69 mil lei have been calculated. The down payments have been granted to the supplier ELCOMEX - IEA SA for performing 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 Constanta, 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.
- Given that to the date of drafting the financial statements, the amounts guaranteed by ASITO KAPITAL SA for the payment of down payments have not been recovered, on December 31<sup>st</sup>, 2017 the Company registered

impairment adjustments amounting to 31.18 mil lei.

– receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to 4.5 mil lei;

– deferred expenses amounting to 4.8 mil lei mainly represented by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future periods (3.3 mil lei), a guarantee fee for the BEI 25710 loan and commission of ING credit granting, maintenance and technical assistance, rents;

– other long-term receivables amounting to 4.5 mil lei, out of which 4.2 mil lei represent guarantees for temporary occupation of the land calculated and retained in accordance with Article 39 (1), (2) and (5) of Law no. 46/2008 on the Forestry Code, in order to achieve the investment objective Resita – Pancevo (Serbia) 400 kV OHL.

– receivables to be recovered from ANAF in the amount of RON 44 mil lei.

### Shareholders' Equity and Liabilities

**Long-term liabilities** have registered a 32% decrease in 2017, as a result of reimbursements performed as per the maturity dates and loan agreements (from 1,005 mil lei as of December 31<sup>st</sup>, 2016 to 684 mil lei as of December 31<sup>st</sup>, 2017).

At the same time, **short-term liabilities** have registered a 2% decrease (from 1,130 mil lei as of December 31<sup>st</sup>, 2016 to 1,108 mil lei as of December 31<sup>st</sup>, 2017). This situation is mainly determined by:

- the increase in the current portion of long-term credits, including interests related to long and short-term borrowings and liabilities (from 138 mil lei as of December 31<sup>st</sup>, 2016 to 317 mil lei as of December 31<sup>st</sup>, 2017)
- the 20% decrease in trade payables (from 874 mil lei as of December 31<sup>st</sup>, 2016 to 700 mil lei as of December 31<sup>st</sup>, 2017), due to:
- the decrease of liabilities to suppliers from the operational activity – energy, as a result of the payment of outstanding obligations on the electricity market as of December 31<sup>st</sup>, 2016
- the decrease of liabilities to suppliers on the balancing market, as a result of the decrease in trade volume on the balancing market in December 2017 compared to December 2016
- the decrease of the contribution for high-efficiency cogeneration – the "Different creditors" category amounting to 32 mil lei as of December 31<sup>st</sup>, 2017 mainly represents the net position of the support scheme for high-efficiency cogeneration, decreased from 134 mil lei in December 31<sup>st</sup>, 2016 as a result of the decrease of the contribution for high-efficiency cogeneration

### Shareholders' equity

Shareholders' equity registered a 13% decrease determined by the decrease of the revaluation reserve (500 mil lei as of December 31<sup>st</sup>, 2017 compared to 549 mil lei as of December 31<sup>st</sup>, 2016) and the 21% decrease in retained earnings (1,261 mil lei as of December 31<sup>st</sup>, 2017 compared to 1,602 mil lei as of December 31<sup>st</sup>, 2016)

## 11.4 Cash flow

Table 31: Cash flow

Mil lei	2017	2016	2015	17/16
<b>Operational activity</b>				
Cash flow before changes in current assets	355	725	808	▼51%
Changes in current assets	(41)	(119)	83	▼66%
Paid interests and taxes	(30)	(91)	-86	▼67%
<b>Net cash from the operational activity</b>	<b>96</b>	<b>515</b>	<b>805</b>	<b>▼81%</b>
<b>Investment activity</b>				
Purchase of tangible and intangible assets	(183)	(172)	-243	▲6%
Collections from the investment activity	8	8	19	0%
Other financial assets	135	(65)	79	n/a
<b>Cash used in the investment activity</b>	<b>(40)</b>	<b>(199)</b>	<b>(14)5</b>	<b>▼80%</b>
<b>Financing activity</b>				
Net (repayments)/collections from borrowings and bonds issuance	(134)	(162)	(197)	▼17%
Special dividends paid according to OG 29/2017	(170)	-	-	n/a
Paid dividends	(166)	(194)	(205)	▼14%
<b>Cash used in the financing activity</b>	<b>(470)</b>	<b>(357)</b>	<b>(402)</b>	<b>▲32%</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(413)</b>	<b>(41)</b>	<b>258</b>	<b>▲907%</b>
<b>Cash and cash equivalents as of January 1<sup>st</sup></b>	<b>934</b>	<b>974</b>	<b>716</b>	<b>▼4%</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>521</b>	<b>934</b>	<b>974</b>	<b>▼44%</b>

## 11.5 Indicators

Table 32: Profitability, liquidity, risk and activity indicators

Indicator	Calculation formula	2017	2016	2015
<b>Profitability indicators</b>				
a) EBITDA in total turnover	$\frac{\text{EBITDA}}{\text{Turnover}}$	0.10	0.25	0.26
b) EBITDA in shareholders' equity	$\frac{\text{EBITDA}}{\text{Shareholders' equity}}$	0.11	0.22	0.25
c) Gross profit ratio	$\frac{\text{Gross profit}}{\text{Turnover}}$	(0.01)	0.12	0.15
d) Rate of return on capital	$\frac{\text{Net profit}}{\text{Shareholders' equity}}$	(0.02)	0.09	0.12
<b>Liquidity indicators</b>				
a) Current liquidity indicator	$\frac{\text{Current assets}}{\text{Short-term liabilities}}$	1.24	1.62	1.74
b) Quick ratio indicator	$\frac{\text{Current assets} - \text{Inventories}}{\text{Short-term liabilities}}$	1.21	1.59	1.70
<b>Risk indicators</b>				
a) Debt ratio indicator	$\frac{\text{Debt capital}}{\text{Shareholders' equity}}$	0.19	0.21	0.26
b) Interest coverage ratio	$\frac{\text{EBIT}}{\text{Interest expenses}}$	(0.36)	14.58	15.75
<b>Activity indicators</b>				
a) Rotational speed of debts – clients	$\frac{\text{Customers average balance} \times 365}{\text{Turnover}}$	71.41	72.68	70.61

## 12 Regulated tariffs for electricity transmission

### General framework

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

Electricity transmission services are charged during regulatory periods. Such regulatory periods represent multi-annual cycles of tariff regulation (currently 5 years), during which a tariff calculation methodology<sup>14</sup> is applied and a full set of parameters is used for it, for actual tariff calculations. Tariff parameters established for multi-annual horizons and offer a higher predictability and visibility of investments, of Transelectrica's operational costs and revenues. Tariffs of a regulatory period are annually reviewed and remain valid for 12month intervals since the approval date<sup>15</sup> (tariff years).

Differences between the forecasted values and actual values of parameters used in tariff calculations for a particular year are netted by means of ex-post corrections implemented in the tariff in subsequent tariff years or at the beginning of the immediately following regulatory period. In case of certain specific

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

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

- costs for current operation of the service: controllable and non-controllable operation and maintenance costs, own technological consumption, internal network congestions, costs and revenues associated to the financial settlement mechanism of electricity transits within ENTSO-E;
- costs of system development: investments planned in the transmission network, the depreciation program based on regulated service periods, the profitability of invested capital established using a regulated rate of return, applied to the asset regulatory base;
- the electricity amount that can be charged.

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

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

Transelectrica charges transmission tariffs for injection into public electricity networks (tariff component TG) and for extraction out of public

<sup>14</sup> The methodology currently applied is the one approved by ANRE Order no. 53/2013 on the tariff setting methodology for the electricity transmission service

<sup>15</sup> Tariffs may be changed during a tariff year only in clearly defined cases foreseen by the tariff setting methodology for the electricity transmission service approved by ANRE Order no. 53/2013



electricity networks (tariff component TL). TG is not applied to the electricity generated by power plants of small installed capacity up to 5 MW. TG is also not applied to imported electricity. TL is not applied to exported electricity.

On July 1<sup>st</sup>, 2015, ANRE changed the allocation manner of regulated costs by the two components of the transmission tariff (TG and TL). This change meant limiting the costs included in the TG to the costs of the own technological consumption and the costs associated to removing network congestions. All other regulated costs were distributed to TL. The change occurred due to Romania's voluntary step to tailor the national regulatory framework according to the recommendations provided in Opinion no. 9/2014 issued by the Agency for Cooperation of Energy Regulators (ACER) regarding transmission tariffs paid by electricity producers in Europe.

The Opinion of ACER points out how important it is to increase the harmonization degree of transmission tariffs paid by electricity generators, with a view to minimize potential distorted effects caused by different network tariffs paid by generators from different EU member states, in the context of setting the single electricity market on an European level.

In Romania, the new cost allocation method moved the center of gravity of regulated revenue on the TL tariff, thus the national electricity consumption became the main determining factor in the collection of transmission revenues. The situation before implementing this new allocation method was characterized by a balanced distribution of regulated costs by TG and TL components, which generated similar exposure levels of revenues to the volumes injected in the grid by generators, namely to the volumes extracted out of the grid by consumers. The new allocation method significantly reduces the exposure levels of revenues to the electricity output (stimulated by export in recent years) and increases the exposure of revenues to the domestic demand of electricity accordingly.

The tariff plan for electricity transmission is currently differentiated by zones, both for injection and for extraction of electricity

into/from networks, depending on the impact such electricity injection/extraction can have over the own technological consumption in a certain area of the power transmission grid. The amendments made to Law no. 123/2012 on electricity and natural gas at the end of 2016 provide uniform tariffs by eliminating zone differences, and the network users will pay the same transmission tariff (network injection/network extraction) regardless of their connection point in the network. Such amendments will be implemented in the secondary legislation.

### Tariffs applicable in 2017

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 to the electricity transmission service and system services effective as of July 1<sup>st</sup>, 2017, have been modified.

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

Index	Tariff	UM	Tariff applied as of July 1 <sup>st</sup> , 2016	Tariff applied as of July 1 <sup>st</sup> , 2017	Difference %
A	Electricity transmission	lei/MWh	18.70	<b>16.86</b>	-9.8%
B	Functional system service	lei/MWh	1.30	<b>1.11</b>	-14.6%
C	Technological system service	lei/MWh	11.58	<b>9.39</b>	-18.9%
	Charged quantity	TWh	52.0	<b>54.0</b>	-

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.

### Transmission tariff

The decrease of 9.8% in the transmission tariff mainly represents the negative corrections applied by the regulator for the compensation of differences between the forecasted values used to calculate the tariff in the previous years and the actual recorded values (final corrections for the year July 1<sup>st</sup>, 2015 - June 30<sup>th</sup>, 2016, preliminary corrections for the year July 1<sup>st</sup>, 2016 - June 30<sup>th</sup>, 2017) according to the methodology in force.

The "ex-post" corrections contributed to the decrease in tariff with 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 and exported electricity above the initial level forecasted by ANRE when planning the tariff;

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 services tariff

The tariff decrease 14.6% was mainly 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 services tariff

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>st</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.

## 13 LITIGATIONS

### RAAN

Pending with the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, the file no. 9089/101/2013/a140 was recorded, involving the "claims in the amount of 86.5 mil lei", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities - RAAN.

By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 86.5 mil lei.

On May 19<sup>th</sup>, 2016, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, pronounced a hearing protocol by which it ordered the following: "on the grounds of Article 413 (1) of the Civil Procedure Code, suspends the case until the settlement of the file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice. With appeal throughout the suspension. Pronounced on May 19<sup>th</sup>, 2016, in open court."

We also mention the fact that, by the protocol dated on September 18<sup>th</sup>, 2013, ruled by the Mehedinti Court in file no. 9089/101/2013, the opening of the general insolvency proceedings has been ordered against the debtor Autonomous Administration for Nuclear Activities R.A. (R.A.A.N.)

Through the sentence no. 387/March 20<sup>th</sup>, 2014, the Mehedinti Court confirmed the reorganization plan of the debtor Autonomous Administration for Nuclear Activities, proposed by the insolvency administrator Tudor & Partners SPRL and voted on by the General Assembly of Creditors according to the minutes of February 28<sup>th</sup>, 2014.

By interim decision no. 10/January 28<sup>th</sup>, 2016, pronounced by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, the liquidator ordered the commencement of the bankruptcy procedure for the debtor pursuant to Article 107 (1) C of Law. no. 85/2006, and the dissolution of the debtor and cancellation of the debtor's right to administer.

Through the Decision no. 563/June 14<sup>th</sup>, 2016, the Court of Appeal Craiova - Section II Civil rejected the appeals lodged against interim decision no. 10/January 28<sup>th</sup>, 2016, ruled by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section.

By the hearing protocol of June 30<sup>th</sup>, 2016, Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section set the new procedural time limit as follows: "Sets the deadline for the submission of claims arising in the proceedings to August 13<sup>rd</sup>, 2016. Sets the deadline for the verification of claims arising during the procedure, preparation, display and communication of additional table of receivables on September 29<sup>th</sup>, 2016. Sets the deadline for filing objections against receivables arising in the proceedings on October 9<sup>th</sup>, 2016 and for resolving the objections against receivables arising in the proceedings on October 20<sup>th</sup>, 2016. Sets the deadline for the preparation and display of the consolidated final table on November 10<sup>th</sup>, 2016."

Together with filing the receivables declaration in the bankruptcy proceedings of RAAN, Transelectrica SA may invoke the provisions of Article 52 of Law no. 85/2006, applicable to the bankruptcy proceedings for RAAN, provisions taken from Article 90 of Law no. 85/2014 concerning the creditor's right to invoke the compensation of his receivable with the one of the debtor, when the legal provisions on compensation in legal proceedings are completed on the date of commencement of the procedure. Transelectrica SA has been registered in the table of debtor RAAN with the amount of 11.3 lei under the category of receivables resulting from the continuation of the debtor's activity, the amount requested by our company being equal to 89.4 mil lei, our amount of 78.1 mil 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 78.1 mil 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. An appeal was filed against the Table. The Mehedinți Court approved the accounting expertise proof. The parties lodged objections against the audit expertise report, which were admitted by the court who set the hearing on February 22<sup>nd</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. The next hearing was set on October 26<sup>th</sup>, 2016, and until the date of drafting this report, no other changes have been registered.

At the hearing from February 8<sup>th</sup>, 2017, the objections against the expert report have been notified. The postponement date was set on April 4<sup>th</sup>, 2017.

Following a verification conducted in 2017, 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. CNTEE Transelectrica SA filed a total of 8 objections against the measures ruled by the Romanian Court of Auditors (CCR) via Decision no. 8/27.06.2017 requesting the annulment thereof, as well as the Decision no. 77/03.08.2017 registered with the Company's secretariat under no. 29117/08.08.2017, as well as the Control Report no. 19211/26.05.2017, as follows:

- Case file no. 6578/2/2017 pertains to the annulment of the findings from point 9 and the measures ruled at point II.11;

- Case file no. 6577/2/2017 pertains to the annulment of the findings from point 13 and the measures ruled at point II.13;
  - Case file no. 6576/2/2017 pertains to the annulment of the findings from points 7.1, 7.2 and 8 and the measures ruled at point II.10;
  - Case file no. 6574/2/2017 pertains to the annulment of the findings from point 5.2 and the measures ruled at point II.8;
  - Case file no. 6581/2/2017 pertains to the annulment of the findings from point 6 and the measures ruled at point II.9;
  - Case file no. 6580/2/2017 pertains to the annulment of the findings from point 10 and the measures ruled at point II.12;
  - Case file no. 6582/2/2017 pertains to the annulment of the findings from point 11 and the measures ruled at point I.5;
- by Decision no. 274/2017, CAB ruled the following: "Rejects the request as groundless. With right of appeal within 5 days from notification, with the remission of sentence on the head of the claim, which is submitted to the Court of Appeal Bucharest. With right of appeal within 15 days from notification, with the annulment of the action on the head of the claim, which is submitted to the Court of Appeal Bucharest. Ruled on January 29<sup>th</sup>, 2018, pursuant to Art. 402 in conjunction with Art. 396 (2) of the Romanian Civil Procedure Code, notified via the registry of the court." as per the information available on the court website.
- Case file no. 6583/2/2017 pertains to the annulment of the findings from point 5.1 and the measures ruled at point II.7;
- by Decision no. 5207/2017, CAB ruled the following: "Rejects the exception to the ineligibility of the claim invoked by the defendant as groundless. Rejects the request in annulment as groundless. Rejects the suspension request as groundless. Rejects the plaintiff's request to order the defendant to pay the legal costs, as groundless. With right of appeal within 5 days from notification with regard to the solution given for the suspension request, within 15 days from notification with regard to the solution given for the merits of the case and the request to appeal will be submitted to the Court of



Appeal Bucharest – Section VIII Administrative and Fiscal Litigation. Ruled in open court today, December 28<sup>th</sup>, 2017." as per the information available on the court website.

Note: litigations are registered on the docket of the Bucharest Court of Appeal and are currently in different settlement stages.

## ANRE

CNTEE 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. 96/2013 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>16</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%.

CNTEE Transelectrica SA considers that the enforcement of the provisions of Article 51 of the Methodology on establishing the Beta ( $\beta$ ) parameter at the value of 0.43<sup>17</sup> shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138.4 mil. lei<sup>18</sup>, 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. The next hearing was set for February 13<sup>th</sup>, 2018.

## OPCOM

On March 4<sup>th</sup>, 2014, the European Commission issued a communication stating that it has imposed a fine of 1,031,000 EUR to the subsidiary of SC OPCOM S.A. for the abuse of dominant position on the Romanian market in order to facilitate the trading of electricity on the spot market, in breach of the EU antitrust rules. The Company was included in the trial acting as parent company to the subsidiary SC OPCOM S.A., being jointly responsible for paying the fine.

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

<sup>16</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>17</sup> The value that caused the decrease of the RRR to 7.7%

<sup>18</sup> Value calculated compared to the RRR of 8.52%

European Union, according to the Decision no. AT 39984 in the antitrust case. The subsidiary SC OPCOM SA has made full payment of the fine set by the European Commission.

On November 24<sup>th</sup>, 2014, the subsidiary SC OPCOM SA summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086.31 euro (2.6 mil 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.

Also, the subsidiary SC OPCOM SA requested the court to order the Company to pay the amount of 0.85 mil lei as lawful interest related to the period between June 11<sup>th</sup>, 2014 - November 24<sup>th</sup>, 2014, plus legal expenses amounting to 0.38 mil lei.

The action filed by the Subsidiary 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 defenses regarding the unfoundedness and unlawfulness of the action.

On July 24<sup>th</sup>, 2015, the Bucharest Court ruled the judgement no. 4275/2015, by which it ordered the following: "Admits the application for summons filed by plaintiff Romanian Gas and Electricity Market Operator - OPCOM S.A. against defendant National Power Grid Company "Transelectrica" S.A. Orders the defendant to pay the plaintiff the amount of 582,086.31 euro, representing the amount paid by the plaintiff in the defendant's stead from the fine in the amount of 1,031,000 euro, imposed by the Decision of the European Commission on March 5<sup>th</sup>, 2014 in the case no. AT.39984 and of the lawful interest related to the amount of 582,086.31 euro, calculated on June 11<sup>th</sup>, 2014 and up until de day of the actual payment. Orders the defendant to pay the plaintiff the amount of 0.38 mil lei, as legal expenses. With right of appeal within 30 days from notification. The request for appeal shall be lodged before the Bucharest Court – Section VI Civil."

Against the sentence no. 4275/2015, pronounced in the aforementioned file,

Transelectrica SA formulated an appeal, which was registered before Bucharest Court of Appeal. The resolution of the Court of Appeal is the following: Admits the appeal. Changes the appealed civil sentence completely, meaning that it rejects the application for summons as ill-founded. Orders the appellee - plaintiff to pay the trial expenses to the appellant - defendant amounting to 16,129 lei, representing legal stamp duty. With appeal within 30 days from notification. Ruled in open court today, October 10<sup>th</sup>, 2016. Document: Decision 1517/2016 from October 10<sup>th</sup>, 2016.

OPCOM S.A. filed a second appeal. The High Court of Cassation and Justice decided the following: Grants, in principle, the appellant-plaintiff Operatorul Pieței de Energie Electrică și Gaze Naturale – OPCOM S.A. motion against decision no. 1517/10.10.2016, ruled by the Bucharest Court of Appeal – Section V Civil. Sets the hearing for solving the appeal on March 13<sup>th</sup>, 2018. The parties will be summoned. Ruled in open court on December 5<sup>th</sup>, 2017.

In 2014, the company recorded a provision amounting to 2.7 mil lei for the litigation with the subsidiary SC OPCOM SA.

### CONAID COMPANY SRL

In 2013, Conaid Company SRL took legal actions against CNTEE Transelectrica for the unjustified refusal of the latter to sign an addendum to the connection agreement or to sign a new connection agreement, and requested the compensation for costs incurred up to that time, amounted to 17.4 mil lei and loss of profit for the period 2013 - 2033 amounting to EUR 722,756,000. So far, the Company did not conclude an addendum to the connection agreement because the suspensive provisions included therein have not been met by Conaid Company SRL. A new connection agreement would have had to be concluded by March 11<sup>th</sup>, 2014, the date on which the technical connection permit has expired. On the date of these financial statements, the amounts claimed by Conaid Company SRL were regarded as contingent liabilities as it is unlikely to settle this obligation, there will be necessary outflows of resources embodying economic benefits and



the value of obligation cannot be evaluated with sufficient reliability. The file no. 5302/2/2013 was on the dockets of the High Court, involving the obligation of issuing of an administrative document, the procedural stage – second appeal, the next hearing being on December 9<sup>th</sup>, 2015. At this hearing, the High Court of Cassation and Justice admitted, in principle, the second appeals and set the hearing, in substance, of the second appeals on April 8<sup>th</sup>, 2016, Formation 4, summoning the parties. The judgement was postponed for June 17<sup>th</sup>, 2016, when the court reserved judgement, postponing the judgement until June 29<sup>th</sup>, 2016, when it pronounced Decision no. 2148/2016, by which it ordered the following: "Rejects the exceptions invoked by the appellant - plaintiff S.C. Conaid Company S.R.L., via insolvency administrator RVA Insolvency Specialists SPRL, and by the appellant - defendant National Company for Energy Transportation Transelectrica S.A. Admits the second appeal filed by the defendant National Company for Energy Transportation Transelectrica S.A. against the hearing protocol of February 18<sup>th</sup>, 2014 and the civil sentence no. 1866 of June 11<sup>th</sup>, 2014, pronounced by the Court of Appeal Bucharest – Section VIII, Administrative and Fiscal Litigation Section. Partially invalidates the contested protocol and judgment and refers the case to the Bucharest Court – Section VI Civil, for settlement of the application of the plaintiff sought against the National Power Grid Company Transelectrica S.A. Maintains the other provisions of the sentence concerning the plaintiff's action against the National Regulatory Authority for Energy. Rejects the second appeals of the plaintiff SC Conaid Company S.R.L. via insolvency administrator RVA Insolvency Specialists SPRL and the intervener S.C. Duro Felguera S.A. against the civil sentence no. 1866 of June 11<sup>th</sup>, 2014 pronounced by the Bucharest Court of Appeal – Section VIII, Administrative and Fiscal Litigation. Rejects the second appeal filed by the defendant National Power Grid Company Transelectrica S.A. against the hearing protocol from March 25<sup>th</sup>, 2014, pronounced by the Bucharest Court of Appeal - Section VIII, Administrative and Fiscal Litigation. Final. Ruled in open court on June 29<sup>th</sup>, 2016.

On the docket of Bucharest Court – Section VI Civil, the case was registered under no. 12107/3/2017. By civil sentence no. 4364/23.11.2017, the Court admits the exception to the ineligibility of the claim and rejects it as ineligible. It also rejects the motion to intervene in the interest of the plaintiff. With right of appeal within 30 days from notification. The appeal is lodged at the Bucharest Court - Section VI Civil. Sent to the parties via registry on November 23<sup>rd</sup>, 2017.

#### **FF WIND ENERGY INTERNAȚIONAL SRL**

Case file no. 47332/3/2017 on the docket of the Bucharest Court - Section VI Civil, by which the company FF Wind Energy Internațional SRL requests the following against CNTEE Transelectrica SA: - the annulment of the unilateral statement for the termination of the PTG connection agreement no. 85/14.03.2011 issued on March 2<sup>nd</sup>, 2016 under no. 8295, - ordering the Company to pay the amount of 33 mil. lei as damages following the termination of the agreement and to pay the amount of 45,000,000 euro as the amount of depreciation of the company FF Wind Energy Internațional SRL caused by the impairment of its purpose.

Status of the file: in preliminary proceedings for notification of the action and filing statement of defense.

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 Autonomă de Activități Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL).

The Company registered adjustments for value losses regarding customers and other claims at issue as well as for bankrupt customers.

#### **ANAF**

The Company took proceedings against ANAF-DGAMC requesting cancellation of the taxation decision F-MC 439/30.06.2017 issued on 12.07.2017 by the National Agency of

Fiscal Administration, General Directorate Administrating Large Tax Payers, which “in accordance with article 53 para (3) of Law 207/2015” replaced the taxation decision F-MC 439/30.06.2017, issued by the National Agency of Fiscal Administration, General Directorate Administrating Large Tax Payers, according to the forwarding letter 1311AIF/12.07.2017, as well as the decision not to amend the taxation base F-MC 440/30.06.2017, issued on 12.07.2017 by the National Agency of Fiscal Administration, General Directorate Administrating Large Tax Payers, which were contested by administrative dispute, such contestation was not settled within the legal term, as well as cancellation of the Fiscal audit report concluded on 30.06.2017, which was used for the taxation decision.

#### ▪ OTHERS

The company is involved in significant litigations, especially for debt recovery (e.g. Petprod SRL, Total Electric Oltenia SA, Arcelormittal Galați SA, Regia Autonomă de Activități Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL, Elsaco Energy, Elcomex, SC ICPE Electrocond SA, CET SA Iași, CET Energoterm Reșița SA, SC Electrocentrale Oradea, SC Total Electric Oltenia SA and others).

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



**Transelectrica®**

**Societate Administrată în Sistem Dualist**

**Report**

**Corporate Governance and  
Social Responsibility**

## 14. Corporate Governance

### Corporate governance regulation

Since the listing of shares on the regulated market of the Bucharest Stock Exchange ("BSE"), the Company has appropriated the principles from the Corporate Governance Code of BSE. In accordance with the BSE requirements, Transelectrica published the Company's reviewed Corporate Governance Regulation.

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

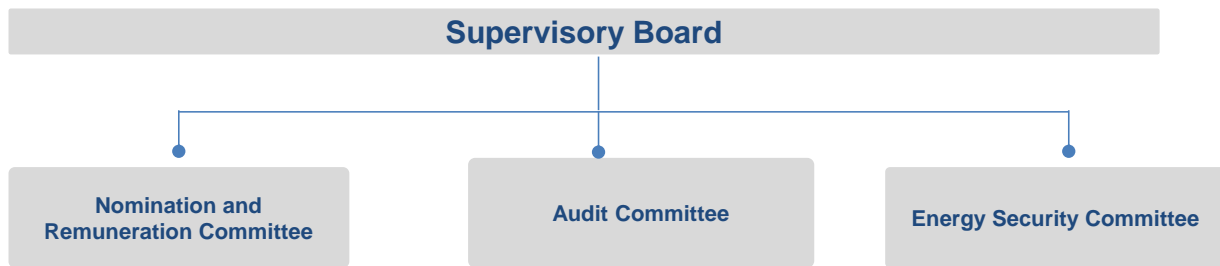
The document has been developed in accordance with the principles set in the Corporate Governance Code of the BSE and is available at [www.transelectrica.ro](http://www.transelectrica.ro), under the Investor Relations/Corporate Governance/the Company's Corporate Governance Code section.

### Other applicable documents

- The Company complies with the provisions of primary legislation on the capital market, while also observing and applying all provisions of secondary legislation, namely the FSA and BSE regulations and others, including internal, which are relevant in the industry. Of these we mention a few:
- Corporate Governance Code of the BSE;
- The Companies Act no. 31/1990, republished, as subsequently amended and supplemented;
- GEO no. 109/2011 on the corporate governance of public enterprises, as subsequently amended and supplemented ("GEO no. 109/2011"), a regulatory act introducing the corporate governance principles into autonomous and state owned companies;
- Law no. 297/2004 on the capital market, as subsequently amended and supplemented and Law no. 24/2017 on the issuers of finance instruments and market operations, as well as the Regulations of the National Securities Commission and the Financial Supervisory Authority;
- The Professional Ethical Code, compulsory for all organizational structures, which provides the ethical norms of conduct establishing and regulating corporate values, responsibilities, obligations and business conduct, based on which the company developed;
- The listing commitment whereby Transelectrica, in the Initial Public Offering (2006) committed to observing the rights of securities holders and providing equal treatment to all securities holders of the same type and category;
- The Corporate Governance Code and Anticorruption Principles developed by AmCham Romania, which are international standards used in a sound business environment;
- The Company's Articles of Association, most recently updated on November 9<sup>th</sup>, 2017 based on Decision no. 14/11.09.2017 of the Extraordinary General Assembly of Shareholders ("Articles of Association");
- The Regulation on the organization and functioning of the Board of Supervisors



Figure 39: Structure of the Board of Supervisors as of December 31st, 2016



### Board of Supervisors

(hereinafter also referred to as "BS")

As of December 31<sup>st</sup>, 2017, the structure of the Board of Supervisors is the following:

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

In accordance with the Articles of Association, the BS consists of seven members, appointed for a period of no more than 4 years; they can be recalled at any time by the Company's General Assembly of Shareholders.

Up to May 30<sup>th</sup>, 2017, the *Administration plan drafted by the Board of Supervisors of the National Power Grid Company "Transelectrica"-SA* has been in force, which includes the administration strategy throughout the mandate, approved by Decision no. 6/2013 of the General Assembly of Shareholders.

Starting with May 31<sup>st</sup>, 2017, the General Assembly of Shareholders appointed provisional members of the Board of Supervisors with a limited mandate, pursuant to GEO no. 109/2011, until the completion of the election procedure of the BS members according to this regulatory act; according to the decision of the General Assembly of Shareholders which started the procedure, it will be carried out at the level of the supervisory body – the Ministry of Economy.

All members are non-executives and the Company's management is the responsibility

of the Directorate, according to the law and the Articles of Association. BS members may meet at any time, but in any case at least once every three months.

The General Assembly of Shareholders established the mandate term, the remuneration and the form of the mandate contract concluded with them.

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

In 2017, the BS met every time the Company's interests required debates regarding the issues under its authority.

### Electing the Board of Supervisors members by the cumulative vote method

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

If the cumulative vote method is applied, the BS members in office as of the date of the General Assembly of Shareholders shall be registered ex officio on the list of candidates for electing BS members, together with the candidates proposed by the shareholders. All candidates registered on the candidate list shall be subject to the shareholders' vote within the General Assembly of Shareholders.

The members of the Board of Supervisors in office as of the date of the general assembly, who are not reconfirmed via cumulative vote as BS members, are considered as being recalled from their position. The mandate of BS members in office as of the date of the General Assembly of Shareholders during which the cumulative vote was applied, will carry on in the event of their reconfirmation via the cumulative vote method.

#### Remuneration of the Board of Supervisors

BS members benefit from a fixed monthly gross remuneration, established by the General Assembly of Shareholders in line with the applicable legal provisions.

The maximum level of the fixed monthly gross allowance owed to BS members throughout the provisional member mandate amounted to 4,435 lei gross/month as of December 31<sup>st</sup>, 2017.

The mechanism for granting the fixed gross monthly allowance is the following:

- BS members (including the Chairman) who are in office in at least 2 consultative committees within the BS, benefit from a fixed monthly allowance in full amount.
- Board of Supervisors members who are in office in one consultative committee within the BS benefit from a fixed monthly allowance representing 90% of the fixed monthly allowance in full amount.
- BS members who are not in office in consultative committees within the BS benefit from a fixed monthly allowance representing 85% of the fixed monthly allowance in full amount.

#### Attributions of the Board of Supervisors

The Board of Supervisors has the following main attributions:

- a. exercises control over the manner in which the Directorate leads the Company;
- b. verifies the revenue and expense budget and the investment plan for the financial year, submitted for approval to the general assembly of shareholders;
- c. performs any duty provided by the special legislation applicable to the management of public undertakings;
- d. determines the Directorate's members structure and number;
- e. appoints and recalls Directorate members and establishes their remuneration;
- f. checks whether the activity carried out in the name and on behalf of the Company complies with the law, the Articles of Association and the general assembly of shareholders' decisions;
- g. submits to the general assembly of shareholders, at least once a year, a report on the supervisory activity carried out;
- h. represents the Company in the relations with the Directorate;
- i. approves the Directorate's internal rules;
- j. verifies the financial statements of the Company;
- k. checks the report of Directorate members;
- l. proposes to the general assembly the appointment and recall of the financial auditor, as well as the minimum period of the audit contract;
- m. convenes the general assembly of shareholders under exceptional circumstances and according to the Company's interest.

The following types of operations shall not be carried out without the Board of Supervisors' approval:

- procurement of products, services and works, regardless of their term, with a value exceeding 5,000,000 euro;
- operations pertaining to the provision of transmission services, system services and wholesale electricity market management services, operations to collect the contributions for high efficiency cogeneration,



operations to pay the bonus and return the undue overcompensation/bonus, operations for the PTG connection, for the fulfillment of co-existence requirements, for the site release and execution of these works, technical consultancy and project management related to these works, operations for the sale and purchase of the land required for the new installations under the PTG connection contracts, as well as for the land required for the access roads to those installations, operations for the establishment, in favor of the Company, of the rights of utilization and easement, of superficies, of use, the right to impact by any means the land affected by the new installations according to the PTG connection contracts, as well as any other operations to be carried out for the proper performance of the Company's main activity, in accordance with the applicable regulations, with a value exceeding 10,000,000 euro;

- initiation, settlement, exercise, abandonment of claims, dispute, arbitration, with a value exceeding 500,000 euro;
- commitments involving important obligations of the Company, except for the operations provided in letters a) and b), with a value exceeding 5,000,000 euro;
- any gratuitous act, including any sponsorships and donations offered by the Company, with an individual value exceeding 100,000 lei;
- the establishment or discontinuation of secondary sites of the Company, inland or abroad (branches, representative offices, agencies or other such entities without legal personality).

If the Board of Supervisors does not give its agreement for the operations stated above, the Directorate may seek the approval of the General Ordinary Assembly of Shareholders which will decide according to the law.

The Board of Supervisors, while performing their essential duties of controlling the way in which the Directorate leads the Company, as well as of verifying the activity carried out in the

name and on behalf of the Company, has the right and the obligation to establish, by reference to the Directorate and the Company, the control, verification and reporting methods it deems necessary in order to fulfill such duties.

### Consultative Committees

Three consultative committees were constituted within the Board of Supervisors as of December 31<sup>st</sup>, 2017:

- *Audit Committee;*
- *Nomination and Remuneration Committee;*
- *Energy Security Committee.*

As of December 31<sup>st</sup>, 2017, the committees had the following structure:

*Audit Committee:* Beatrice AMBRO, Marius Iulian CARABULEA, Faustin Doru SCÎNTEI, Sorin Alin MITRICĂ, and Bogdan BOBORA.

*Nomination and Remuneration Committee:* Cristian Eugen RADU, Marius Iulian CARABULEA, Beatrice AMBRO, Faustin Doru SCÎNTEI, Sorin Alin MITRICĂ, Fănel MIHALCEA and Bogdan BOBORA.

*Energy Security Committee:* Fănel MIHALCEA, Cristian Eugen RADU and Marius Iulian CARABULEA.

Decisions within consultative committees are taken by majority vote. In the event of a tie, the Chairman has the decisive vote.

The approved Regulation on the organization and functioning of the Board of Supervisors sets forth that at least one member of each committee must be an *independent director* in the meaning of the Company Act and the legislation and regulations of the capital market. In the audit committee, the majority of members must be *independent directors*.

Any consultative committee member may convene a meeting of the committee in which he/she is a member. The convocation of the consultative committee meetings will be sent to each member of the committee in writing, by fax or e-mail at the e-mail address or fax number of said member of the committee.

## Attributions of the committees within the Board of Supervisors

The main attributions of BS committees, depending on the object of activity, are:

### *Nomination and Remuneration Committee*

- formulates proposals for the position of Board of Supervisors and Directorate member;
- develops and proposes to the Board of Supervisors the selection procedure for Board of Supervisors members, Directorate members and other managerial positions;
- formulates proposals regarding the remuneration of the Company's Directorate and Board of Supervisors members, as well as other managerial positions, observing the general remuneration limits approved by the General Assembly of Shareholders;
- coordinates the appointment process of Directorate members;
- submits in the Annual Report the total sum of the direct and indirect remuneration of Directorate and Board of Supervisors members.

### *Audit Committee*

The audit committee assists the BS in fulfilling its responsibilities in terms of financial reporting, internal control and risk management.

The attributions of the audit committee in terms of financial reporting and statutory audit:

- monitors the financial reporting process at Company level;
- monitors the statutory audit of the annual financial statements and of the consolidated annual financial statements;
- regularly examines the efficiency of the financial reporting;
- verifies and monitors the independence of the statutory audit or the audit firm and particularly the provision of additional services to the audited entity;
- formulates recommendations to the Board pertaining to the appointment of the external auditor (statutory audit or audit

firm) of the Company with regard to the election, appointment, reappointment and replacement of the external auditor, as well as the terms and conditions of its remuneration;

- monitors the independence and objectivity of the external auditor, particularly by monitoring the rotation of partners in the audit firm;
- receives and analyzes the external auditor's report with regard to essential aspects resulting from the statutory audit and particularly with regard to significant deficiencies of the internal control in terms of the financial reporting process;
- supports the Council in monitoring the credibility and integrity of the financial information provided by the Company, particularly by revising the relevance and consistency of the accounting standards applied (including consolidation criteria).

Attributions of the audit committee in terms of managerial internal control:

- monitors the efficiency of internal control, internal audit and, as the case may be, the risk management systems of the Company;
- regularly examines the efficiency of the internal control and the risk management system adopted by the Company;
- ensures that the audit analyses carried out as well as the audit reports drafted as a result thereof are compliant with the audit plan approved by the Company;
- proposes to the Board the control, verification and reporting methods necessary for performing the essential duties of controlling the way in which the Directorate leads the Company, as well as of verifying the activity carried out in the name and on behalf of the Company;
- verifies the achievement of the non-financial reporting goals at the Company level;
- fulfils the attributions provided in the Regulation on the organization and functioning of the Board of Supervisors, including the ones provided by Article 65 of Law no. 62/2017 on statutory audit of the annual financial statements and

consolidated annual financial statements and amending other legal acts.

#### *Energy Security Committee*

- monitors and advises the Board of Supervisors, the Directorate and the Company's specific compartments in terms of strategic objectives as: transmission and system operator responsible with electricity supply under security conditions for the entire NPS; PTG functioning under energy security conditions at NPS level; energy security and protection of the critical infrastructure;
- getting involved, under the mandate of the Board of Supervisors, together with the Directorate, in the dialogue with public authorities having attributions and competencies in the energy security field (Department of Energy, specific Parliamentary Commissions).

#### **BS committees activity in 2017**

The members of the Energy Security Committee performed the following activities during 2017:

- Analysis of the technological system services used in order to ensure frequency and slow tertiary reserve stability;
- Analysis of the technological system services used in order to ensure voltage stability;
- Analysis of the technological system services used in order to ensure the rehabilitation of the NPS operation under circumstances of blackout, extended damages or system breakdown.

The activity of the Nomination and Remuneration Committee in 2017 was the following:

- Nominating Ciprian Boloş to occupy the vacancy for the position of provisional member of the Board of Supervisors;
- Drafting the report of the Nomination and remuneration committee for 2016;
- Completing the selection procedure of a Directorate member and making recommendations to the Board of Supervisors regarding the appointment of

a Directorate member from the list submitted by the independent expert George Butunoiu Grup SRL; The recommendation to appoint Georgeta-Corina Popescu as Directorate member;

- The recommendation to the Board of Supervisors to appoint Nicolae Luca Iacobici as Directorate member/Chairman;
- The recommendation to the Board of Supervisors to appoint the following persons as provisional members of the Board of Supervisors, starting with September 17<sup>th</sup>, 2017: Georgeta-Corina Popescu, Mircea-Toma Modran, Dan-Valeriu Ardelean, Florin-Cristian Tătaru and Andreea Georgiana Florea.

The members of the Audit Committee performed the following activities during 2017:

- Analysis regarding the Company's reporting obligations in line with the new BSE Governance Code.
- Verifying the preliminary stand-alone financial statements on December 31<sup>st</sup>, 2016;
- Verifying the directorate's activity report – fourth quarter of 2016;
- Verification of the Quarterly report pertaining to the economic and financial activity, drafted according to the provisions of Art. 227 of Law no. 297/2004 on the capital market and the National Securities Commission Regulation no. 1/2006;
- Verifying the report on the public internal audit activity for 2016 carried out at CNTEE Transelectrica SA;
- Verifying the audited stand-alone financial statements, drafted on December 31<sup>st</sup>, 2016;
- Verifying the audited consolidated financial statements, drafted on December 31<sup>st</sup>, 2016;
- Verifying the annual report on the stand-alone financial statements of Transelectrica for 2016;
- Verifying the annual report on the consolidated financial statements of Transelectrica for 2016;
- Analysis of the notification regarding the Directorate's proposal for establishing the gross dividends for 2016;

- Analysis of the notification regarding the Directorate's proposal for distributing the net profit on December 31<sup>st</sup>, 2016;
- Completing the half-yearly report regarding the supervision activity, drafted according to GEO no. 109/2011;
- Presenting the Audit Committee's report, drafted according to the new provisions of the BSE Corporate Governance Code;
- Verifying the preliminary financial statements for the first quarter of 2017;
- Verifying the Directorate's Report for the first quarter of 2017;
- Presentation of the results for the first quarter of 2017;
- Checking the interim stand-alone financial statements, drafted on and for the period concluded on June 30<sup>th</sup> 2017;
- Verification of the Half-yearly report on the economical and financial situation of CNTEE Transelectrica SA for the first 6 months of 2017, drafted in line with the capital market regulations;
- Verification of the Directorate's Activity Report pertaining to the first semester of 2017;
- Proposal regarding the appointment of the Company's financial auditor – Note no. 40268/27.10.2017;
- Analysis of the Public Internal Audit Reports no. 8/2017 – assessment of the TB Bacau activity;
- Analysis of the Public Internal Audit Reports no. 9/2017 – assessment of the TB Craiova activity;
- Analysis of the stand-alone financial statements as of September 30<sup>th</sup>, 2017;
- Analysis of the Activity Report drafted by the Directorate for the third quarter of 2017, explaining and substantiating the figures included in the financial statements as of September 30<sup>th</sup>, 2017.

### The Directorate

On December 31<sup>st</sup>, 2017, the Directorate membership was the following:

- Georgeta-Corina Popescu – Chairman
- Andreea-Georgiana Florea – Member
- Florin-Cristian Tătaru – Member

- Mircea-Toma Modran – Member
- Dan-Valeriu Ardelean – Member

### Organization of the Directorate

The Directorate members are appointed and recalled by the BS. The number of members shall be determined by the BS, provided that number is not lower than three and higher than seven - the number must always be uneven. One Directorate member shall be appointed to the position of Directorate Chairman (alternatively called Chief Executive Officer – "CEO" – of the Company).

Directorate members are elected in accordance with GEO no. 109/2011 and their mandate is granted for a period of 4 (four) years. If there is a vacancy for the position of Directorate member, the Board of Supervisors shall appoint another member for the remaining mandate duration of the member being replaced, selected in accordance with the provisions of Government Emergency Ordinance no. 109/2011.

Up to September 16<sup>th</sup>, 2017, the *Management plan* has been in force, approved by Decision no. 37/June 6<sup>th</sup>, 2014 of the Board of Supervisors.

Starting with September 17<sup>th</sup>, 2017, the BS appointed provisional members of the Directorate with a limited mandate, pursuant to GEO no. 109/2011, until the completion of the election procedure of the Directorate members according to this regulatory act; this procedure is subsequent to the appointment by the General Assembly of Shareholders of the BS members according to the this regulatory act.

### Remuneration of the Directorate

As of December 31<sup>st</sup>, 2017, Directorate members benefit from a fixed monthly gross remuneration, established by the BS in line with the applicable legal provisions, as follows:

- the Directorate Chairman allowance amounts to 28,000 lei gross/month;
- the Directorate members allowance amounts to 26,000 lei gross/month.

## Directorate Duties

The main Directorate duties performed under the supervision of the Board of Supervisors, are:

- establishes the strategy, development policies, accounting policies and financial control system of the Company, and approves the financial planning;
  - approves the Company's organizational structure (organizational chart) and the organization and operation regulation;
  - submits to the general assembly of shareholders, on an annual basis, the report on the Company's activity, the financial statements of the previous year, the budget draft and the investment plan of the Company for the current year;
  - concludes legal documents with third parties in the name and on behalf of the Company, by observing the provisions of the Articles of Association on the joint signature and the aspects reserved to the competence of the general assembly of shareholders or of the Board of Supervisors;
  - hires and dismisses, establishes the duties and responsibilities of the Company staff in accordance with the staff policy of the Company;
  - negotiates the Collective labor agreement within the Company, as well as the addenda thereto, together with the employees' representatives;
  - performs all operations and takes all measures necessary and useful for the Company's governance and the fulfillment of the Company's activity, except those reserved to the general assembly of shareholders or to the Board of Supervisors, according to the law or to the Articles of Association; In this regard, the Directorate approves the operations within Transelectrica, other than the ones set forth in the competence of the general assembly of shareholders, with the obligation to obtain the Board of Supervisors' approval for the type of operations for which the law or the Articles of Association provide the need of such an approval;
  - approves the mandates of Company representatives in the general assemblies of shareholders of Transelectrica's subsidiaries and informing the Board of Supervisors, on a quarterly basis, about the mandates provided to them;
  - approves, with the approval from the Board of Supervisors, the establishment or discontinuation of secondary sites of the Company (branches, representative offices, agencies or other such entities without legal personality);
  - approves the Company's conclusion of legal documents such as the company agreement regulated by the Civil Code when the outcome is not an entity with distinct legal personality, as well as approving the Company's participation as a member in various domestic or international organizations;
  - performs any competence delegated by the general assembly of shareholders, according to the law;
  - performs any duty provided by the special legislation applicable to the management of public undertakings;
  - carries out the decisions of the general assembly of shareholders;
- The Directorate shall inform the general assembly of shareholders, at least twice a year, regarding the following types of operations:
- procurement of products, services and works, regardless of their term, with a value exceeding 5,000,000 euro;
  - initiation, settlement, exercise, abandonment of claims, dispute, arbitration, with a value exceeding 500,000 euro;
  - commitments involving important obligations of the Company, with a value exceeding 5,000,000 euro;
  - credits, regardless of their term, with a value lower than 50,000,000 euro;
  - credit guarantees, with a value lower than 50,000,000 euro.
- The Directorate has the obligation to ensure the reporting procedures within the Company, as well as the organizational conditions



necessary to fulfill the controlling and verification duties of the Board of Supervisors.

### The General Assembly of Shareholders

The General Assembly of Shareholders is the management body of Transelectrica and decides upon the activity and economic policy of the Company. The general assembly can be ordinary or extraordinary and its specific attributions are set out in the Articles of Association.

Since the listing of its financial instruments on the regulated market of the BSE, Transelectrica undertook the obligation to respect the rights of issued financial instruments holders and to ensure them a fair treatment.

- Thus, all financial instruments holders of the same securities category are treated in a fair manner and all financial instruments of the same type and from the same category offer the holders equal rights.
- Each share offers rights to the holder as per the Articles of Association:
- voting rights in the General Assembly of Shareholders (one share = one vote);
- the right to elect and to be elected in the management bodies;
- the right to participate in profit distribution (dividend right).

Holding the share certifies the commitment to the Articles of Association.

All shareholders have the right to participate in the General Assembly of Shareholders, to exercise their voting rights and to express their point of view during debates.

The ordinary general assembly of shareholders has the following obligations and attributions:

- discusses, approves or amends the annual financial statements on the grounds of the reports presented by the Directorate, the Board of Supervisors and the financial auditor;
- approves the distribution of profit and determines the dividends;
- appoints and recalls BS members;

- appoints and dismisses the financial auditor and sets the minimum term of the financial audit contract;
- sets the general remuneration limits of the Directorate members;
- sets the level of remunerations for the current financial year of the Board of Supervisors members;
- gives its verdict on the management of Directorate and Board of Supervisors members, assesses their performance and discharges them, according to legal provisions;
- decides with regard to suing the Directorate and BS members, as the case may be, for damages incurred by the Company;
- sets the statement of expenditure and revenue and the investment plan for the financial year submitted for approval;
- decides regarding anything that falls within its competence pursuant to the applicable legislation;
- analyzes the BS reports with regard to the activity carried out;
- decides with regard to the pledging or renting one or more Company units.
- The extraordinary general assembly of shareholders gathers any time it is necessary to make a decision on the following main aspects:
  - changing the legal form of the Company;
  - moving the Company's headquarters;
  - changing the Company's object of activity;
  - increasing the Company's share capital;
  - reducing the Company's share capital or restoring it by issuing new shares;
  - merger with other companies;
  - splitting up the Company;
  - anticipated dissolution of the Company;
  - converting the shares from one category to another;
  - converting registered shares to bearer shares or bearer shares to registered shares;
  - converting bonds from one category to another or in shares;
  - issuing bonds;
  - concluding documents to acquire, alienate, exchange or constitute as security certain assets from the Company's non-current



ones with a value exceeding (individually or jointly) 20% of the total book value of Company non-current assets minus liabilities, during a financial year;

- any amendments to the Articles of Association or any other decision for which the extraordinary general assembly's approval is required.

In addition to the competencies and attributions mentioned in the paragraph above or by the law, the general extraordinary assembly of shareholders will decide on the following issues:

- conclusion by the Company of any type of loans or loan-type obligations, as a creditor;
- constitution or participation in the constitution of legally distinct entities, with patrimonial or non-patrimonial purpose, as well as equity participation in other companies;
- conclusion of credit agreements, with a period higher than or equal to 5 years, with a value higher than or equal to 50,000,000 euro.
- lodging of guarantees with a value higher than or equal to 50,000,000 euro.
- establishing the minimum value of the insured amount and the maximum value of the professional liability insurance premium of the Board of Supervisors members and the Directorate members respectively.

For the aforementioned attributions, the Romanian state's representatives in the general assembly of shareholders cannot issue a decision without obtaining a special mandate from the public institution that appointed or mandated them, as the case may be, mandate which comes in the form of a special power of attorney according to the capital market regulations and indicates the manner in which such representative will cast his/her vote.

### Internal control

Internal control in the Company means the entirety of policies and procedures devised and implemented by its management and personnel, with a view to achieve the general objectives.

The internal managerial control's mission consists in providing internal administrative

control in the Company with a view to achieve proper quality levels of the Company's attributions, as established in accordance with its own mission, under regular, efficient and economic conditions.

The object of activity of the internal managerial control results from the activity targets of the subordinated organizational subunits, and it consists of:

- providing internal control of Company activities and in its organizational units;
- providing control to public procurement activities and to other activities performed to ground, plan and achieve maintenance operations within the larger activities of the Company's organizational entities;
- participating to detailed investigations and fraud examination commissions and proposing sanctions according to the area of competence;
- preventing the conflicts of interests when managing the company funds according to the area of competence;
- promoting loyal competition and antitrust policies by identifying, discouraging and sanctioning anti-competitive agreements, according to the area of competence.

The main objectives of internal control are executing systematic, ethical, economic and efficient operations, achieving the liability obligations, respecting the applicable legislation and regulations, protecting resources against losses and damage by waste, abuse, improper management, errors, frauds, irregular acts and monitoring, coordinating and methodologically guiding the implementation and development of the internal/managerial control system.

Operational Procedures have been developed for specific activities, which are reviewed every time needed. Thus operations, processes and activities are periodically reanalyzed in order to make sure they comply with the current rules, policies, procedures or other requirements.

Operational Procedures are available to all Company employees and have been posted on the Company's intranet portal. Through

their structure, they establish separate tasks for each organizational structure/entity of the Company. Operational Procedures are applicable, enforced and verified in each individual entity when conducting the audits.

### Internal audit

In 2017, public internal audit activities were performed in Transelectrica using the Company's own internal audit structure subordinated to the Company Directorate.

The self public audit internal activities are organized and performed in only 4 out of the 5 subsidiaries of CNTEE Transelectrica SA (OPCOM SA, SMART SA, TELETRANS SA and FORMENERG SA). The public internal audit activity is not performed in the subsidiary ICEMENERG SERVICE SA - this activity is provided by the Company's public internal audit (PIA) structure.

#### *Mission*

- providing consultancy and insurance regarding the efficiency of risk management, control and governance systems, thus contributing to added value and making recommendations to improve them;
- assisting the Company management to reach the objectives and providing objective and detailed valuations about the legality, regularity, economy and efficiency of activities and operations carried out.

#### *Principles governing the activity*

- law 672/2002 regarding the public internal audit, with later additions;
- general public internal audit norms (GD 1086/2013);
- the internal auditor's code, which is meant to set up the ethical framework necessary for the internal audit profession;
- the internal audit charter determines the position of the internal audit structure in the public entity, defining the internal audit sphere of activity, the rights and obligations of internal auditors;
- the Company's organizational independence so as not to be subjected to

any kind of interference, starting with the determination of audit objectives, the actual performance of the works specific to the mission and up to the results notification;

- individual objectivity, competency, professional conscience and continued professional training of auditors;
- Integrity, the obligation to maintain the internal auditors' confidentiality and political neutrality.

The Public Internal Audit structure carries out activities based on its own procedure, updated every time it is necessary. All the stages performed during the audit mission are provided in the contents of such procedure.

The Public Internal Audit structure elaborated its own methodological norms, as well as the working procedure with respect to the exercise of public internal audit activities in accordance with GD 1086/2013. At the same time Standard 9 - Procedures has been implemented according to OSGG 400/2015.

The programme providing public internal audit activities and improving their quality guarantees the public internal activity is performed in accordance with the norms, guidelines and the Code on the internal auditor's ethical conduct, while contributing to improved activities of the Public Internal Audit structure.

In 2017 the public internal audit activities from CNTEE Transelectrica SA was carried out by observing the minimum reporting requirements requested by UCAAPI (Central Harmonisation Unit for Public Internal Audit) in the standard format of the annual report for 2017.

The multi-annual public internal audit plan of CNTEE Transelectrica SA was elaborated and approved for 2017-2021 under no. 1976 / 17.01.2017.

In accordance with the provisions of Law 672/2002 republished, with later amendments and additions, public internal audit is exercised over all activities performed within one entity, including the activities of subordinated entities. Consequently, existing internal auditors have conducted public intern audit activities to the

organisational structures of the Company's Executive, of the 8 branches and subsidiaries by means of assessment or insurance missions in the subsidiary where there is no internal audit structure.

The plan is reviewed every time there is need to, in order to make certain it further contains relevant updated information.

Audited activities were structured by years and thus organisational entities had to be classified depending on their importance and contribution to reaching the main activity objectives of CNTEE Transelectrica SA. Each structure proceeded to identifying and hierarchizing the activities carried out according to detailed organisation and operation regulations and to the interviews conducted with the managers of respective entities. Such hierarchy took into account the risk analysis and assessment performed in accordance with the International Audit Standards and the good practice established in this domain while also taking into account a balanced distribution. Thus each year high risk activities will be prevalingly audited but also those providing medium and low risks.

The risk analysis criteria used in the annual and multi-annual planning are as follows:

- likelihood of risk occurrence;
- seriousness of event consequences (impact level).

The annual was determined using the "Multi-annual public internal audit plan of CNTEE Transelectrica SA" approved and the risk analysis, taking into account certain priorities that occurred following the previous audit missions, or requests from the Directorate and Supervisory Board members. The following issues were also taken into account when elaborating the plan:

- the organisational structure of the Company's public internal audit structure, as well as the number of existing auditors;
- the schedule of such public internal audit structure should comply with certain time intervals provided in the legislation;

- the legal obligation of the API leader to participate in the last part of the intervention to the audited entity to verify the documents, supervise the mission, negotiate the public internal audit report and conclude the mission;
- the public holidays of 2017;
- providing certain available time periods for possible ad-hoc missions or other requests (non-audit activities), for the professional training / improvement of auditors (minimum 15 days/year as per the applicable legislation), as well as for their legal holidays;
- the interval 1 December - 20 January is provided for the annual reporting of public internal audit activities in order to have the public internal audit plan approved for the following year;
- auditing all Company activities while observing the periodicity provided in the legislation for certain objectives;

Taking all these into account in 2017 the calendar provided the possibility to plan 12 public internal audit missions (11 insurance missions and 1 assessment). All planned missions were completed in due time. Consequently, the plan was achieved 100%.

Public internal audit adds value by the performed activities both by assessing the internal control system while reviewing the risks associated to auditable activities, and by the recommendations included in the report and transmitted with a view to provide achievement of Company objectives.

The implementation of recommendations appropriated by the audited entities is monitored to supervise the plus value created by the public internal audit to support the achievement of Company objectives.

## Statement of compliance with the Corporate Governance Code of the BSE

Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
<b>Section A – Responsibilities [of the Board of Supervisors]</b>			
A.1.	TEL should have an internal regulation of the BS which includes the terms of reference/responsibilities of the BS and the key management functions of the company, applying, among others, the General Principles of Section A.	TEL's BS carries out its activities based on the applicable legislation, the Articles of Association, the Regulation on the organization and functioning of the Board of Supervisors and it is the decision maker in matters pertaining to the company's activity, except for those which, according to the law, fall under the authority of the General Assembly of Shareholders or of other commercial bodies. <b>Details - in the Annual Report under the Corporate Governance section</b>	A.1.
A.2.	Provisions for the management of conflict of interest should be included in the BS regulation. In any event, BS members should notify the BS of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	The Regulation on the organization and functioning of the Board of Supervisors includes provisions pertaining to avoiding conflicts of interest, incompatibilities and conflicts of integrity in the Company's Board and Directorate. Thus, the Board of Supervisors members make decisions in the Company's interest and will not take part in debated or decisions which create a conflict of interest between their personal interests and the ones of the Company or its subsidiaries. The Board of Supervisors members are obligated to notify the other Board of Supervisors members and internal auditors and to not take part in any deliberation pertaining to the notified aspects, if: (i) in a certain operation there is a direct or indirect conflict of interest with the Company's interests; (ii) in a certain operation there is an interest of his/her family members, including spouses and relatives up to the IV <sup>th</sup> degree. Throughout the entire duration of the mandate as the Company's Board of Supervisors member, the persons concerned must meet the eligibility criteria and to not be in the incompatibility situations set forth by the governing law (including the capital market law) or the applicable commercial provisions. With respect to these obligations, the Company has the right to request the Board of Supervisors members to issue reasonable necessary insurances pertaining to the compliance with these obligations. It is also provided that if, during the mandate of a Board of Supervisors member, an incompatibility situation occurs or an eligibility criterion is no longer fulfilled, the Board of Supervisors member concerned has the obligation to expressly notify the other Board members and to waive his mandate with immediate effect. <b>Details - in the Regulation on the organization and functioning of the Board of Supervisors published on TEL's website under the Investor Relations/Corporate Governance/Relevant Documents section.</b>	A.2.
A.3.	The BS should have at least five members.	The BS consists of seven members. <b>Details - in the Annual Report under the Corporate Governance section</b>	A.3.
A.4.	Not less than two non-executive members of the BS should be independent. Each member of the BS should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered	According to the law, the constitution of the audit committee and the nomination and remuneration committee is mandatory at BS level. The Regulation on the organization and functioning of the Board of Supervisors sets forth that at least one member of each committee must be an <i>independent director</i> in the meaning of the Company Act and the legislation and regulations of the capital market. In the audit committee, the majority of members must be <i>independent directors</i> . As per the statements given to the Company, the following	A.4.

Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
	independent in terms of character and judgement.	Board of Supervisors members are independent members:  <b>Details - in the Annual Report under the Corporate Governance section</b>	
A.5.	A BS member's other relatively permanent professional commitments and engagements, including executive and non-executive BS positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	Throughout the entire duration of the mandate as the Company's Board of Supervisors member, the persons concerned must meet the eligibility criteria and to not be in the incompatibility situations set forth by the governing law (including the capital market law) or the applicable commercial provisions. With respect to these obligations, the Company has the right to request the Board of Supervisors members to issue reasonable necessary insurances pertaining to the compliance with these obligations. It is also provided that if, during the mandate of a Board of Supervisors member, an incompatibility situation occurs or an eligibility criterion is no longer fulfilled, the Board of Supervisors member concerned has the obligation to expressly notify the other Board members and to waive his mandate with immediate effect.  <b>Details - in the Regulation on the organization and functioning of the Board of Supervisors published on TEL's website under the Investor Relations/Corporate Governance/Relevant Documents section.</b>	A.5.
A.6.	Any BS member should submit to the BS information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the BS.	BS members have the obligation to fill in and submit a solemn statement pursuant to the provisions of Article 34 (2) (a), (b) and (c) of the Electricity and Natural Gas Act no. 123/2012, as subsequently amended and supplemented, and of Article 40 of the Articles of Association.	A.6.
A.7.	TEL should appoint a BS secretary responsible for supporting the work of the BS.	<i>The BS secretary attributions are currently fulfilled by Nicoleta BRĂTUCU and Irina RĂCĂNEL from the Corporate Governance Department, Investor Relations and Representation.</i>	A.7.
A.8.	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the Chairman or the nomination committee and, if it has, it should summarize key action points and changes resulting from it. TEL should have a policy/guidance regarding the evaluation of the BS containing the purpose, criteria and frequency of the evaluation process.		A.8.
A.9.	The corporate governance statement should contain information on the number of meetings of the BS and the committees during the past year, attendance by directors (in person and in absentia) and a report of the BS and committees on their activities.	30 meetings of the Board of Supervisors of CNTEE Transelectrica SA took place in 2017, out of which 20 were carried out with the attendance in person by the directors, 5 were conducted by phone and 5 took place by electronic means (e-mail). 6 meetings of the Audit Committee took place throughout 2017. The members of the nomination and remuneration committee met in 6 meetings in 2017 and the members of the energy security committee met in one meeting.  <b>Details - in the Annual Report under the Corporate</b>	A.9.



Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
		<b>Governance section</b>	
A.10.	The corporate governance statement should contain information on the precise number of the independent members of the BS.	All members are appointed while observing the legal provisions applicable to companies admitted to trading, and are selected according to the provisions of GEO no. 109/2011; As per the statements given to the Company, the following Board of Supervisors members are independent members:  <b>Details - in the Annual Report under the Corporate Governance section</b>	A.10.
A.11.	The BS of TEL should set up a nomination committee formed of non-executives, which will lead the process for new BS appointments and make recommendations to the BS. The majority of the members of the nomination committee should be independent.	The nomination and remuneration committee is constituted within the BS <sup>19</sup> and has the responsibility to issue proposals for the positions of BS and Directorate members, to develop and propose to the BS the procedure to select BS and Directorate members as well as other management positions, to issue proposals pertaining to the remuneration of Directorate members and other management positions. <b>Details - in the Annual Report under the Corporate Governance section</b>	A.11.
<b>Section B – Risk Management and Internal Control System</b>			
B.1	The BS should set up an audit committee, and at least one member should be an independent non-executive director. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.	<i>The audit committee fulfils the attributions provided in the Regulation on the organization and functioning of the Board of Supervisors, including the ones provided by Article 65 of Law no. 62/2017 on statutory audit of the annual financial statements and consolidated annual financial statements and amending other legal acts.</i>  <i>The organization, functioning and attributions of the BS are set out in the Regulation on the organization and functioning of the Board of Supervisors published on TEL's website under the Investor Relations/Corporate Governance/Relevant Documents section.</i>  <b>Details have also been included in the Annual Report under the Corporate Governance section</b>	B.1
B.2.	The audit committee should be chaired by an independent non-executive member.	<i>The name of the audit committee chairman is also mentioned in the Annual report and on the Company's webpage,</i> <a href="https://www.transelectrica.ro/consiliul-de-supraveghere">https://www.transelectrica.ro/consiliul-de-supraveghere</a> , All BS members are non-executives. As per the statement given to the Company, _____ is an independent member.  <b>Details - in the Annual Report under the Corporate Governance section</b>	B.2.
B.3.	Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.	<b>Details - in the Annual Report under the Corporate Governance section;</b> The audit committee within the BS presents an annual report in this regard to the general assembly of shareholders.	B.3.
B.4.	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy	<b>(idem B.3)</b>	B.4.

<sup>19</sup> <https://www.transelectrica.ro/consiliul-de-supraveghere>



Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
	of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.		
B.5.	The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	<b>Details - in the Annual Report under the Corporate Governance section</b>	B.5.
B.6.	The audit committee should evaluate the efficiency of the internal control system and risk management system.	<b>Details - in the Annual Report under the Corporate Governance section</b>	B.6.
B.7.	The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.	<b>Details - in the Annual Report under the Corporate Governance section</b> <b>Relevant information are presented on an annual basis in the General Assembly of Shareholders in the "BS committee report on internal control and significant risk management systems"</b> (the General Assembly of Shareholders from April 26 <sup>th</sup> -27 <sup>th</sup> , 2018 on the approval of the annual financial results of 2017).	B.7.
B.8.	Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual) or ad-hoc reports to be submitted to the Board afterwards.	<b>The audit committee presents an annual report to the General Assembly of Shareholders; Details - in the Annual Report under the Corporate Governance section</b>	B.8.
B.9.	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	The Company has the obligation to ensure equal treatment for all holders of real estate, of the same type and class, and will provide them with all necessary information so that they can exercise their rights.	B.9.
B.10.	The BS should adopt a policy ensuring that any transaction of TEL with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of TEL (as stated in the latest financial report), should be approved by the BS following an obligatory opinion of the BS's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.	In order to fulfill the reporting obligations pursuant to Art. 113 letter G para. (6) of Regulation no. 1/2006 of the National Securities Commission on the issuers of and operations with real estate, in conjunction with the provisions of Art. 82 of Law no. 24/2017 on the issuers of finance instruments and market operations, the external auditor of TEL carries out the half-yearly analysis of the transactions with affiliated parties. The auditor's report is forwarded to the BSE and the Financial Supervisory Authority and is published on TEL's website under the Investor Relations/Current Reports section.	B.10.
B.11.	The internal audits should be carried out by a separate structural division (internal audit department) within TEL or by retaining an independent third-party entity.	The Company's public internal audit activity is carried out via the Company's own audit structure, thus complying with the requirement set forth by Law no. 672/2002 on public internal audit, republished, as subsequently amended and supplemented, and GD no. 1086/2013. <i>As per the organizational chart<sup>20</sup> there are also organizational entities within TEL, namely the Public</i>	B.11.

<sup>20</sup> <https://www.transelectrica.ro/documents/10179/39811/ORGANIGRAMA.pdf/357d606d-0a0c-4524-aab4-36e12beb7e62>

Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
		<i>Internal Audit, Integrated Management and Support Services Direction, Control Direction.</i>	
B.12.	To ensure the fulfillment of the core functions of the internal audit department, it should report functionally to the BS via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.	<i>According to the Regulations on the organization and functioning of organizational entities involved;</i> The entities mentioned at B.11. forward reports on their activity to the Audit Committee within the BS, on a regular basis or whenever necessary.	B.12.
<b>Section C – Fair Rewards and Motivation</b>			
C.1.	TEL should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review.	<i>As per the applicable regulations, the Company annually notifies the General Assembly of Shareholders via the Report of the Nomination and Remuneration Committee</i> <b>Details - in the Annual Report under the Corporate Governance section</b>	C.1.
<b>Section D – Building Value through Investors' Relations</b>			
D.1.	TEL should have an Investor Relations function and the person(s) responsible or the organizational unit should be indicated to the general public. In addition to information required by legal provisions, TEL should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:	In its structure, Transelectrica has specialized organizational entities both for the Investor Relations and for the Shareholder Relations ( <a href="#">contact</a> ),  Documents are available at <a href="https://www.transelectrica.ro/web/tel/relatii-investitori">https://www.transelectrica.ro/web/tel/relatii-investitori</a> .	D.1.
D.1.1	Principal corporate regulations: the articles of association, general shareholders' meeting procedures;		D.1.1
D.1.2	Professional resumes of the members of TEL's governing bodies, a BS member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;		D.1.2
D.1.3	Current reports and periodic reports (quarterly, half-yearly and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the present Code;		D.1.3
D.1.4	Information related to general assemblies of shareholders: the agenda and supporting materials; the procedure approved for the election of Board members; the rationale for the proposal of candidates for the election to the Board,		D.1.4

Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
	together with their professional resumes; shareholders' questions related to the agenda and the company's answers, including the decisions taken;		
D.1.5	Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;		D.1.5
D.1.6	The name and contact information of a person who should be able to provide knowledgeable information on request;		D.1.6
D.1.7	TEL presentations (e.g. investor presentations, quarterly results presentations etc.), financial statements (quarterly, half-yearly, annual), auditor reports and annual reports.		D.1.7
D.2	TEL should have an annual dividend or other shareholders' benefits distribution policy, proposed by the Directorate and adopted by the Board of Supervisors, as a set of guidelines which TEL intends to follow regarding the distribution of net profit. The annual shareholders' distribution policy principles should be published on TEL's website.	On March 28 <sup>th</sup> , 2016, the shareholders approved an annual dividend distribution policy.  Link: <a href="https://www.transelectrica.ro/documents/10179/3235082/03_Propunere+Politica+de+dividend+TEL.pdf/a03e6232-5f57-420b-902f-a98cd611d450">https://www.transelectrica.ro/documents/10179/3235082/03_Propunere+Politica+de+dividend+TEL.pdf/a03e6232-5f57-420b-902f-a98cd611d450</a> ,	D.2
D.3	TEL should adopt a policy with respect to forecasts, whether they are made publicly available or not. Forecasts represent the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, half-yearly or quarterly reports. The forecast policy should be published on the Company's website.		D.3

Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
D.4.	The rules of the general assembly of shareholders should not restrict the participation of shareholders in general assemblies and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general assembly of shareholders.	TEL respects all rights of issued financial instruments holders and ensures a fair treatment regardless of the number of shares held and makes sustained efforts in order to accomplish an effective, active and transparent communication in order for the shareholders to exercise their rights in an unprejudiced manner;	D.4.
D.5.	The external auditors should attend the general assembly of shareholders when their reports are presented there.	✓	D.5.
D.6.	The BS should present to the annual general assembly of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	<b>Relevant information are presented on an annual basis in the General Assembly of Shareholders in the "BS committee report on internal control and significant risk management systems" (the Ordinary General Assembly of Shareholders from April 26<sup>th</sup>-27<sup>th</sup>, 2018 on the approval of the annual financial results of 2017).</b>	D.6.
D.7.	Any professional, consultant, expert or financial analyst may participate in the shareholders' assembly upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general assembly of shareholders, unless the Chairman of the Board decides otherwise.	Accredited journalists may also participate in the general assembly of shareholders, provided that they inform the Directorate beforehand.	D.7.
D.8.	The quarterly and half-yearly financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	Relevant documents are available on TEL's website, under the Investor Relations/Periodical Reports section, link <a href="https://www.transelectrica.ro/web/tel/relatii-investitori">https://www.transelectrica.ro/web/tel/relatii-investitori</a> ;	D.8.
D.9.	TEL should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the Investor Relations section of TEL's website at the time of the meetings/conference calls.	As per the Annual Financial Communication Calendar of TEL, approved and forwarded to the capital market institutions, BSE and FSA, the Company planned four meetings with financial analysts, investment consultants, brokers and investors for presenting the financial results; ( <a href="https://www.transelectrica.ro/web/tel/calendar-financiar">https://www.transelectrica.ro/web/tel/calendar-financiar</a> )	D.9.
D.10	If TEL supports various forms of artistic and cultural expression, sporting activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of TEL makes part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	The document is available on TEL's website, under the About Us/Corporate Social Responsibility section, link: <a href="https://www.transelectrica.ro/web/tel/responsabilitate-sociala-corporativa">https://www.transelectrica.ro/web/tel/responsabilitate-sociala-corporativa</a> ,	D.10

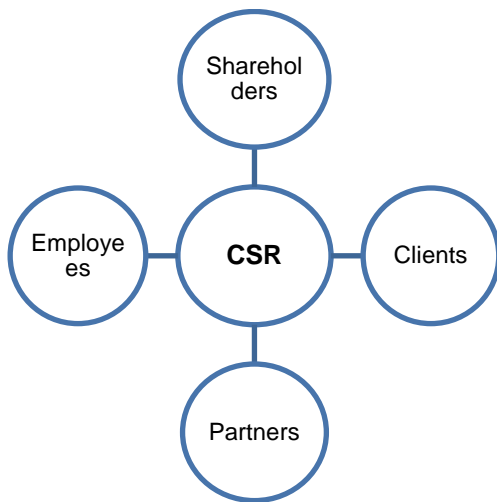
## Corporate Social Responsibility

Besides its economic performance, qualitative management and communication policy, Transelectrica intends to actively participate into the development of the society it operates in by means of corporate social responsibility (CSR) projects.

Being a socially responsible company does not only mean fulfilling the legal obligations applicable in one's own business, but also furthering the actions performed by more investments in human capital, in the environment and in the relationships with stakeholders.

In accordance with Transelectrica's Corporate Social Responsibility Policy, the Company's executive management is aware of the need to get involved in social reality in order to provide, besides commercial success, the consideration of the community it carries out its activities in.

Figure 40: CSR policy – stakeholders



Transelectrica takes into consideration the company's interests and takes responsibility towards employees, shareholders, the community and the environment with a view to generate prosperity, to create workplaces and to provide sustainability to a financially sound enterprise.

CNTEE Transelectrica SA aims at adopting and integrating the best CSR practices in its

business model in order to increase both the efficiency of managerial acts and the company value by enhancing the confidence level of employees, shareholders, partners and the community in its economic social potential.

Throughout the years, ever since the establishment of the Company, the corporate social responsibility policy focused on actions included in a long-term strategy:

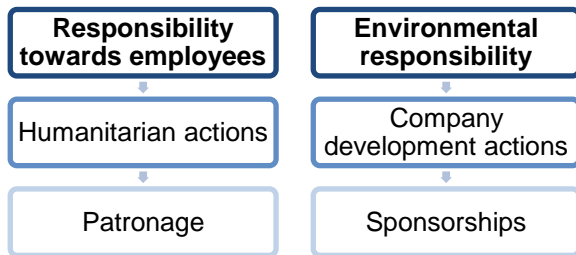
Fields	Actions
<input type="checkbox"/> Art and culture	<input type="checkbox"/> Donations
<input type="checkbox"/> Education	<input type="checkbox"/> Sponsorships
<input type="checkbox"/> Humanitarian actions	<input type="checkbox"/> Patronage acts
<input type="checkbox"/> Company development actions	

By all proposed objectives in terms of corporate social responsibility and by volunteer, sponsorship and donation activities, the Company commits ethically and contributes, by transparent responsible business practices, to the sustainable economic development and to social cohesion, while at the same time improving the quality of employees' lives and their families' and that of local communities and of the society it operates in.

*The CSR vision of Transelectrica* is to provide national values such as innovation, team spirit, respect for diversity and commitment.

In 2017, Transelectrica focused its CSR activities in fields such as: education and training, humanitarian actions, environment, responsibility towards employees and corporate volunteer actions.

Figure 41: Actions performed in 2017



The Company retains and motivates its employees by providing a proper working environment where they can feel comfortable, which can allow their successful growth both in profession and in private, benefitting of:

- job stability and safe working conditions;
- training and development opportunities under the Annual program for employees' professional training and qualification;
- career opportunities by internal promotions;
- development opportunities;
- campaigns assessing the employees' health: general consultations, lab tests, flu and hepatic shots;
- optionally, employees can also benefit of voluntary health insurance, with employee co-financing.

Also, if serious health conditions occur, the Company provides financial support to employees or to family members to continue certain special medical treatments or to undergo surgery abroad.

In 2017, the Company's executive management decided providing financial aids to solve some serious health issues amounting to 207,024 lei to 11 persons, both Transelectrica employees and seriously ill people that requested the Company's support.

The Company also pays great attention to supporting young generations, future electric power engineers. For nearly 4 years Transelectrica and IRE (National Romanian Institute Studying the Development and Utilization of Energy Sources), Romania's representative in EURELECTRIC, have been selecting young people from the Polytechnic

Universities in the country that can participate with scientific articles to the "Students Competition" section of the annual EURELECTRIC Conference. To this respect, Transelectrica provides material support to participating students, covering their travel and accommodation costs abroad.

To support the education of students from the Energy Faculty of Bucharest and in the country, in 2017 Transelectrica granted ten study scholarships amounting to a total of 79,000 lei to students that got very good results.

Enhancing the quality of graduates from the Electric Power Engineering Faculty also involves student education in modern laboratories with a view to complete the theoretical requirements and practical abilities. Thus, in 2017 Transelectrica contributed to the completion of the modernization process of the High Voltage Laboratory and adjacent laboratories which include high voltage installations belonging to the Electric Power Department at the Polytechnic University in Timisoara.

In 2017, Transelectrica's involvement in corporate social responsibility became more and more visible together with associations such as:

The "Dăruiește Viață" Association

Transelectrica joined the courageous project initiated by the "Dăruiește Viață" Association to build from the ground up the first oncology and radiotherapy integrated clinic at the Clinical Emergency Children's Hospital "Marie Curie" from Bucharest. The clinic can ensure multidisciplinary treatment to patients and can positively influence the survival rate - which is one of the lowest in EU countries.

P.A.V.E.L Association

Transelectrica supports the "CA ACASĂ" project aiming to rehabilitate the premises on which the Association carries out its activities with children and adolescents with oncological diseases, as well as their parents. One of the premises that will be rehabilitated is the "Casa Părinților" center, established nearly 20 years



ago. The center hosts free of charge children with cancer and their parents who come from the country side to get treatment.

"Atelierul de Zâmbete" Association

In December 2017 during the Christmas period, Transelectrica and the "Atelierul de Zâmbete" Association managed to bring a dash of hope and joy in the lives of children from four foster centers in Bucharest, helping Santa Claus to prepare the presents for them.

"Solar Decathlon" Association in Bucharest

Transelectrica decided to get involved in the largest education and research project in the field of green buildings and sustainable urban developments in order to improve the development of solar homes and houses. The team's objective at the Solar Decathlon Middle East – Dubai 2018 competition is to build a solar, green, 100% electrical building functioning on renewable energy - a safe and comfortable home.

Transelectrica Sports Association in Sibiu

With Transelectrica's support, the Company's employee Andrei Romanescu managed to complete the "Romanian expedition to the highest peak in Africa – Mount Kilimanjaro 5895m" project.

In 2017, CNTEE Transelectrica joined the ShoeBox project for the first time, a volunteering campaign through which the Company's employees offered gifts wrapped in shoe boxes to children in need. This campaign gathered 169 gifts.

For 2018, CNTEE Transelectrica aims to keep organizing such ambitious projects and to get involved in social responsibility activities together with Romanian NGOs or by funding campaigns that have a positive impact on society.

Transelectrica's values become stronger as the social responsible behavior becomes a part of every employee and the Company's vision in terms of CSR. Thus, the Company makes sure it can live up to the social responsibility towards society via programs that generate long-term results and a positive attitude.

## 15 Responsibility towards employees

The maintenance and permanent development of the Integrated Management System with respect to operational health and security represents a top priority Company-wide.

Labor security and health programs of the Company aimed at the following objectives:

- bringing installations to the level of health and security requirements set in one's own labor security guidelines, aligned to European requirements. Such activities resulted in reduced accident and professional illness risks for personnel active in Company installations;
- endowing Company personnel with individual protection equipment, according to the Company's own labor security requirements;

- providing and permanently supervising the health condition of personnel, according to the provisions of GD 355/2007;
- training personnel with respect the accident risks in Company installations.



Medical assistance of labor medicine was and is provided in the Company by labor medical doctors in the medical cabinets of the

Company Executive and Branches.

To improve the efficiency of labor security and health, we take the following into account:

- completing the revaluation of risk factors for professional accident and illness for all Company jobs;

- monitoring the health of personnel with cardio-vascular conditions (forbidden to licensing) and quarterly reporting to the Integrated Management Department;
- consulting the main general entrepreneurs for occupational health and security, as contracted for work to PTG installations, by inviting them to the meetings of the labor health and security entity.

## 16 Environmental responsibility

Environmental protection is an important objective to the Company, with a view to the Company's sustainable development. Thus, the environmental protection policy belongs to the general one, aiming at maintaining a good environmental management system, preventing and reducing pollution, compliance with legal national and European requirements, and sustainable development.

The 2017 environmental objectives aimed at maintaining a state-of-the-art environmental management system, as well as pollution prevention and reduction so that the environmental impact of the power transmission grid can comply with the limits of national and European requirements. Objectives were achieved by preventive and corrective measures included in the annual environmental management program.

To achieve these objectives, the Company applied measures to reduce the environmental impact of both operational and of maintenance & investment activities, which meant construction-installation works, so in 2017 no particular environmental protection issues were reported.

### Describing the environmental impact of the PTG

High voltage electric installations mainly consisting of overhead lines and transformer & connection substations are installations that can have significant environmental impact

given the technical complexity of installations but also the land areas taken up and the length of tens or even hundred km, usually crossing the territory of several counties.

No pollutants are discharged in the environment during normal operation of PTG installations. Certain chemical substances of pollutant nature can be accidentally leaked in the environment in case of non-tight equipment, wrong operation, failures or during construction and maintenance operations.

Environmental aspects for technology and construction are identified and assessed from the first design stage. The environmental management plan is elaborated according to them (for construction, operation and dismantling of installations), which includes measures to prevent pollution or to reduce the environmental impact, as well as the monitoring plan for environmental factors.

In 2017 in terms of environmental impact:

- no accidental pollution of significant environmental impact was recorded;
- there were no environmental complaints;
- generated waste was disposed of/capitalized at a 86.95% rate, the rest being stored.

## Impact indicators

Table 33: Areas occupied by electric lines and substations

Entity	No safety area [m <sup>2</sup> ]		With safety area [m <sup>2</sup> ]	
	Substations	OHL	Substations	OHL
<b>Total 2017</b>	3,980,544	3,205,655	7,123,765	520,529,940

- **Underground and terrestrial sources of soil and water pollution**

No noxious substances are discharged on ground, in underground or terrestrial waters during normal operation of PTG installations. Accidental pollutions can occur due to non-tight/broken equipment containing dangerous substances or electro-insulating oil, or to defects in the oil regeneration/supply/discharge installations into/from the equipment.

Car oil/fuel leaks can also occur from transportation machinery and means during construction and maintenance work (the oil leaked in the environment was retained by absorbent biodegradable earth).

- **Air pollution sources**

- **Direct emissions**

During construction, maintenance and normal operation of PTG installations, no significant pollutant amounts are discharged in the atmosphere.

During construction, maintenance and normal operation of PTG installations, the following atmospheric emissions can occur: particulate matter - during construction work, flue gas - from cars, electric generating units and thermal plants, ozone in negligible amounts (Corona effect), sulphur hexafluoride - as a result of non-tight equipment or improper gas handling.

Flue gas (SO<sub>x</sub>, CO<sub>x</sub>, NO<sub>x</sub>, COV, particulate matter etc.) can result from fires or explosions.

High voltage OHLs generate atmospheric pollution by ozone and nitrogen oxides after

Corona discharges occurring around active conductors, especially during rains. The additional contribution of such pollutant substances is not major and cannot lead to exceeding the legal threshold values, a level beyond which there is risk for human health.

- **Waste water sources**

Electricity transmission processes do not generate technological waste water. Waste water generated on the location of PTG installations is *domestic waste water* from human activities (directly discharged into the city drainage or collected and transported to a station treating urban waste water, then is discharged on ground or in terrestrial waters), *rainwater* collected in the oil-containing equipment tanks and in concreted manholes storing waste and equipment (can contain oil from leaks) which are mechanically treated in water-oil separators and discharged in the city drainage or collected and transported to a station treating urban waste water or discharged on ground or in terrestrial waters while observing the maximum admissible limits for pollutants disposed in the environment.

- **Generating waste**

No direct waste results from electricity transmission. Waste comes from the construction and maintenance activity, as well as from human actions. Waste quantities are different from one year to another, depending on the volume of investment and maintenance work.

The generated waste was disposed of/capitalized via licensed companies.

Table 34: Waste management

Generated waste (t)	Capitalized waste (t)	Disposed waste (t)	Stored waste (t)	Waste management indicator: disposed, capitalized waste/generated waste
3,782	827.12	2461.3	493.58	86.95%

- **Electromagnetic field generated by PTG installations**

Transformer/connection substations and the 220 kV and 400 kV overhead lines have a relatively low impact nearby, which can be found only around PTG installations. A great part of disturbing effects are owed to electric induction (into non-grounded metal objects or structures) and to interference phenomena (radio interference). Constructive solutions adopted for high voltage lines and substations provide proper protection against the exposure of living bodies to electromagnetic fields, in order to diminish the environmental impact of such installations.

In accordance with specific studies carried out near the 220 kV and 400 kV overhead lines, the intensity of the electric field decreases with distance, so at a distance of ca. 25-30 m from the line axis, the field intensity is zero.

- **Acoustic pollution**

Noise can be produced during construction due to the executed works and the operation of equipment and cars. During operation, acoustic pollution can come from the noise produced by operation & vibration of PTG installations, or by Corona discharges around active conductors.

The noise level of Corona effects at a 25 m distance from the active conductor ranges from 53 dB during rain and 33 dB in fine weather.

- **Impact on fauna**

The impact over fauna is significant, especially over birds that collide with PTG installations or are even electrocuted by such installations in their migration corridors or protected areas.

The main migration corridors of various types of birds have been identified in Banat, Dobrogea and the Danube Delta regions.

- **Impact on vegetation**

The impact on vegetation is determined by the final or temporary land occupation and removal of vegetation exceeding a certain height within the safety areas of PTG installations, in order to prevent fires. This impact can be significant only in protected areas.

- **Measures to prevent and/or limit the environmental impact**

The main measures taken in 2017 to prevent and/or limit environmental impact were the following:

- construction or maintenance of drainage networks for domestic waste water and/or rainwater;
- installing water-oil separators to the oil equipment tanks and storage platforms;
- building concreted platforms for temporary storage of equipment and waste;
- maintenance of oil or SF<sub>6</sub> equipment to prevent leaks;
- painting the towers of overhead lines (OHL) using colors adequate for the landscape;
- deforestation/maintenance of OHL safety corridors;
- restoring/developing the land to bring it to its initial state (after completion of works);
- monitoring the quality of waste water from Company substations and offices and proposing solutions to reduce pollution according to the requirements of environmental and water management permits;
- waste collection, sorting, transportation and capitalization/disposal.



**4.2 mil. lei**

## **Environmental protection expenses**

Total environmental protection expenses amounted to 4.2 mil lei (ca. 901 thousand Euro), which were included in the operational, maintenance and investment expenses.

In 2017, the specific environmental expenses were 0.0205 mil euro/TWh of transmitted electricity.

### **Compliance with legal requirements**

Company managed objectives (269 objectives: transformer & connection substations, overhead electric lines, offices etc., licensed or under re-licensing processes) comply with legal environmental protection requirements, the licensing degree being 99.26% (35 permits). Maintenance and investment operations carried out in 2017 were according to legal and regulatory requirements (environmental and/or water management endorsements, as the case may be).

Generated waste was managed according to legal requirements and was disposed of/capitalized by licensed companies, thus paying the 43 lei in taxes to the Environmental Fund for emissions from stationary sources. The measures imposed by regulatory and control authorities in the environmental protection and water management field were fulfilled in full, as the Company monitored environmental factors (air, water, soil, noise, electromagnetic field, waste) all throughout 2017 according to the requirements set forth by regulatory documents for environment and water management.

All the environmental information was accurately and timely reported according to the legal and regulatory requirements and those resulting from controls performed by regulatory and control bodies.

In 2017, no environmental protection complaints were registered, the Company fully complying with the legislation and regulations for environmental protection and water management.

## Annex 1 - Appointment/recalling acts issued in 2017

### Directorate

- According to BS Decision no. 35/19.04.2017,
  - the Directorate member and Chairman mandate of Ion-Toni Teau was terminated as of May 31<sup>st</sup>, 2017.
- By BS Decision no. 26/29.03.2017,
  - Georgeta-Corina Popescu was appointed to the position of Directorate member. The mandate of Georgeta-Corina Popescu started as of May 1<sup>st</sup>, 2017
- By BS Decision no. 51/31.05.2017,
  - Georgeta-Corina Popescu was appointed to the position of Directorate Chairman.
- By BS Decision no. 70/15.09.2017,
  - the following persons were appointed to the position of provisional Directorate member: Georgeta-Corina POPESCU, Mircea-Toma MODRAN, Dan-Valeriu ARDELEAN, Florin-Cristian TĂTARU and Andreea Georgiana FLOREA.  
The mandate was for a 4-month period.



## Board of Supervisors

- By BS Decision no. 3/31.01.2017,
  - Ciprian Boloş was appointed to the position of provisional BS member.
- By BS Decision no. 28/29.03.2017,
  - Ştefan-Valeriu Ivan was appointed to the position of provisional BS member as a result of the mandate termination of Ciprian Boloş as of March 27<sup>th</sup>, 2017. By Decision no. 2/13.04.2017 of the General Assembly of Shareholders, Ştefan-Valeriu Ivan was appointed to the position of provisional BS member.
- By Decision no. 5/30.05.2017 of the General Assembly of Shareholders,
  - the following persons were appointed to the position of provisional Board of Supervisors members: Cristian Eugen RADU, Marius Iulian CARABULEA, Beatrice AMBRO, Corneliu SOROCEANU, Ştefan-Valeriu IVAN, Dan-Iulius PLAVETI, Bogdan BOBORA for a 4-month period;
- By Decision no. 9/26.09.2017 of the General Assembly of Shareholders,
  - the mandate of the following Board of Supervisors members was extended for a 2-month period: Cristian Eugen RADU, Marius Iulian CARABULEA, Beatrice AMBRO, Corneliu SOROCEANU, Ştefan-Valeriu IVAN, Dan-Iulius PLAVETI, Bogdan BOBORA.
- By Decision no. 12/09.11.2017 of the General Assembly of Shareholders,
  - the following provisional Board of Supervisors members were appointed for a 4-month mandate: Cristian Eugen RADU, Marius Iulian CARABULEA, Beatrice AMBRO, Faustin Doru SCÎNTEI, Sorin Alin MITRICĂ, Fănel MIHALCEA and Bogdan BOBORA. Their mandates started as of November 30<sup>th</sup>, 2017.

## Annex 2 - Important agreements concluded by the company in 2017

No.	Agreement number	Agreement Subject	Duration	Value		Agreement type	Legal basis	Acquisition procedure
				Mil Lei	Mil Euro			
0	1	2	3	4	5	6	7	8
1	C 277/2017	Technical upgrade of the Ungheni 220/110/20 kV substation	40 months	0.00	9.2	Works	Law no. 99/2016 + GD 394/2016	Open Auction
2	C 264/2017	Upgrading the Bacau Sud and Roman Nord 110 kV substations associated to the Moldova 400 kV axis	34 months	38.1	0.00	Works	Law no. 99/2016 + GD 394/2016	Open Auction
3	C 260/2017	Upgrading the 110 and 400(220) KV installations in the Focsani Vest substation	29 months	22.7	0.00	Works	Law no. 99/2016 + GD 394/2016	Open Auction
4	CR 52/2017	RC – 400 KV d.c. OHL Tintareni – Turceni G1+2, G3+4	24 months	2.5	0.00	Works	Law no. 99/2016 + GD 394/2016	Open Auction
5	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 months	2.5	0.00	Works	Law no. 99/2016 + GD 394/2016	Open Auction
6	C 198/2017	Equipment for videowall type display for the control rooms of the dispatching CPD/TPD centers	42 months	3.7	0.00	Supply	Law no. 99/2016 + GD 394/2016	Open Auction
7	PT 53/15080/2017	Cleaning and cleanness maintenance services at the ST Pitesti objectives	36 months	0.70	0.00	Services	Law no. 99/2016 + GD 394/2016	Open Auction
8	TM 102/2017	Cleaning services at the ST Timisoara offices – batch 1 – Timis county	24 months	0.47	0.00	Services	Law no. 99/2016 + GD 394/2016	Open Auction
9	C 263/2017	Strategic services/works in installations under CNTEE "TRANSELECTRICA" SA's management	36 months	227.4	0.00	Services	Law no. 99/2016 + GD 394/2016	Open Auction
10	C 248/2017	Software Eurostag & Syscan: 1 new Eurostag license, 1 new Syscan license, maintenance and upgrade (service) for 6 Eurostag licenses	36 months	0.92	0.00	Services	Law no. 99/2016 + GD 394/2016	Simplified procedure
11	C 233/2017	Air transport services (framework agreement)	12 months	0.70	0.00	Services	Law no. 99/2016 + GD 394/2016	Simplified procedure
12	C 210/2017	Financial audit services for the period between 2017 – 2019	36 months	0.60	0.00	Services	Law no. 99/2016 + GD 394/2016	Simplified procedure
13	C PE/2017	CORE TSOS and RSCS SERVICE level Agreement on Capacity Calculation Development for DA and ID, for the development and implementation of flow-based interconnection capacity calculation	26 months	0.47	0.00	Services	Law no. 99/2016 + GD 394/2016	Own simplified procedure
14	PT 39/11247/2017	AT 1 - Gradiste 200 MVA substation + isolation refurbishment	9 months	0.49	0.00	Services	Law no. 99/2016 + GD 394/2016	Simplified procedure

## Annex 3 - List of Transelectrica's subsidiaries

- The Electricity Market Operator Company "OPCOM" SA – J40/7542/2000 – Bucharest, 16-18 Hristo Botev Blvd., 3<sup>rd</sup> district, code 030236, [www.opcom.ro](http://www.opcom.ro);
- The Company for the Electric Transport Network Maintenance "SMART" SA - J40/8613/2001 - Bucharest, 33 General Gheorghe Magheru Blvd., 1<sup>st</sup> district, code 010325, [www.smart-sa.ro](http://www.smart-sa.ro);
- The Company for Telecommunication and IT Services in Electricity Transmission Grids "TELETRANS" SA – J40/12511/2002 – Bucharest, 16-18 Hristo Botev Blvd., 3<sup>rd</sup> district, code 030236, [www.teletrans.ro](http://www.teletrans.ro);
- Company for Training Romania's Power Engineers "FORMENERG" SA – J40/2265/2002 – Bucharest, 3 Gheorghe Sincai Blvd., 4<sup>th</sup> district, code 040311, [www.formenerg.ro](http://www.formenerg.ro);
- The Company Subsidiary "ICEMENERG - SERVICE" SA – J40/11414/2003 – Bucharest, 8 Energeticienilor Blvd. 3<sup>rd</sup> district, code 032092, [www.icemenerg-service.ro](http://www.icemenerg-service.ro)

### List of persons affiliated to the company

#### 1. Company's subsidiaries

- OPCOM;
- TELETRANS;
- SMART;
- FORMENERG;
- ICEMENERG-SERVICE.

#### 2. All the companies with majority state capital with which the Company concluded regulated contracts on the energy market.

All contracts concluded with affiliated persons amounting to more than 50,000 euro were reported under Current Reports, according to legal provisions.

## Annex 4 - Disputes

On 31.12.2017 the Company was involved in the following disputes amounting to more than 100,000 Euro (465,970 Lei at the BNR exchange rate):

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
1	7238/120/2012	Debtor: SC ECO Energy SRL Creditor: Transelectrica	Insolvency procedure Joint-stock companies – upon debtor's request	Recorded in the creditors' list for <b>24,736,065.84 Lei</b>	<b>Term: 23.04.2018</b>
2	41911/3/2014 41911/3/2014*	Claimant: Transelectrica Defendant I: SC Gallup Organization Romania SRL Defendant II: Stelian Baicusi and others	Claims	<b>4,958,587.72 Lei</b>	Settlement in brief: Admits the exception of functional incompetency of section VIII from Bucharest Tribunal. Referring the file to the registration office from the civil sections of Bucharest Tribunal. No appeal. Pronounced at public hearing on 19.02.2015. Document: Conclusion (disinvestment) 19.02.2015. Filed appeal Defers delivery to 18.12.2017. Denies the appeals as groundless. Obliges the plaintiff in appeal to pay 6,250 Lei law suit expenses (representing reduced lawyer's fee) to defendant in appeal Gallup Organization Romania SRL. Appeal within 30 days from notification. Pronounced at public hearing on 18.12.2017. Document: Judgment 2269/2017 18.12.2017
3	17284/3/2015	Claimant: SC Dagesh Rom SRL Defendant: Transelectrica	Claims	<b>2,784,950 Lei + 168,500 Lei</b>	<b>T: 13.04.2018.</b> Denies the request - Settlement in brief: 1. Admits the exception of prescription with respect to the claims represented by: - the rent difference asked for the time interval 04.03.2012 - 12.05.2012; - penalties associated to the sums claimed as rent difference calculated for 04.03.2012 - 12.05.2012; - difference of service fee demanded for 04.03.2012 - 12.05.2012; - penalties associated to the sums claimed as service fee difference calculated for 04.03.2012 - 12.05.2012. Denies such claims as prescribed. 2. Denies the other claims as groundless. 3. Compels the claimant to pay 2,250 Lei to the defendant as law suit expenses. 4. Appeal within 30 days from notification. Appeal will be submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing on 15.11.2016. Judgment 7230/2016 . <b>Term:13.04.2018</b>

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
4	873/1259/2008	Creditor: DGFP, Transelectrica Debtor: SC Termoficare 2000 Pitesti SA	Insolvency procedure	Request to be recorded in the creditors' list for 641,673.13 Lei	Establishes the term to continue the procedure on 06.03.2018 so that the judiciary liquidator can submit a report mentioning whether the diligence paid in the procedure will bring money to the creditors, to what extent can be applied the provisions of article 131 to this procedure. Appeal right, at the same time with the case substance. Pronounced at public hearing on 20.02.2018 of the Specialised Arges Tribunal. Document: Hearing conclusion <b>20.02.2018</b>
5	29322/3/2014	Debtor under insolvency: SC ENNET GRUP SRL Creditor: Transelectrica	Insolvency procedure	Request to be recorded in the creditors' list for <b>3,277,527.03 Lei</b>	<b>Term – 11.06.2018 – to continue the procedure</b>
6	47478/3/2012 170/3/2014 47478/3/2012*/a1	Debtor under insolvency: SC PETPROD SRL Creditor: Transelectrica	Insolvency procedure Joint-stock companies – upon debtor's request	<b>24,013,312.82 Lei</b>	Enrolled at the statement of affairs of the debtor S.C. PETPROD SRL, with the amount of 24,013,312.82 lei, out of which 11,595,501.88 lei in the category "amount admitted under the condition", mentioning that "the amount admitted under the condition is the subject of the litigation file 49.134 / 3/2012, filed on the role of the Bucharest Tribunal. <b>Term 22.05.2018</b>
7	5302/2/2013	Defendant: Transelectrica, ANRE  Claimant: Conaid Company	Administrative dispute  Ascertaining the unjustified refusal to conclude and sign RET connection addendum and/or contract, obligation to sign addendum and/or contract for RET connection	Obligation to pay <b>722,756,000</b> Euro, representing unrealised profit according to the business plan and <b>17,419,508.07</b> Lei – actual expenses registered in account books	In accordance with article 413 par 1 item 1 from the Civil procedural code, it suspends judging the case; appeal during all term of suspension. The appeal is submitted to the Court of Appeal Bucharest. Pronounced at public hearing on 24 June 2014. Document: Conclusion - Suspension 24.06.2014. <b>Settlement:</b> Admits the appeal – Admits the appeal with cancellation; decides re-referral to court  <b>Settlement details:</b> Ruling 2148/29.06.2016. Denies the exceptions invoked by the recurrent-claimant SC Conaid Company SRL, by judiciary administrator RVA Insolvency Specialists SPRL and by the recurrent-defendant National Power Grid Company Transelectrica SA. Admits the appeal of defendant National Power Grid Company Transelectrica SA against the hearing conclusion of 18 February 2014 and of the civil sentence 1866 of 11 June 2014, pronounced by the Appeal Court Bucharest, Section VIII administrative and fiscal. Cancels the conclusion appealed against and partly the sentence and refers the case to Tribunal of Bucharest, Section VI civil to settle the claimant's case in contradiction with the National Power Grid Company Transelectrica SA. Maintains the other stipulations of the sentence with respect to the claimant's suit against the National Regulatory Authority in the Energy domain. Denies the appeals filed by claimant SC Conaid Company SRL, by its judiciary administrator RVA Insolvency Specialists SPRL and by the third party SC Duro Felguera SA against civil sentence 1866 of 11 June 2014. Pronounced by the Appeal Court Bucharest, Section VIII administrative and fiscal disputes. Denies the appeal filed by the National Power Grid Company Transelectrica SA against the

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					<p>hearing conclusion of 25 March 2014, pronounced by the Appeal Court Bucharest, Section VIII administrative and fiscal disputes. Final. Pronounced at public hearing on 29 June 2016.</p> <p>Solution in brief: Admits the plea of inadmissibility. Dismisses the application as inadmissible. Rejects the application for leave to intervene in the applicant 's interest. With appeal within 30 days of notification. The appeal is to be filed at the Bucharest Civil Court Section VI. Submitted to the parties by the Registry on November, 23<sup>rd</sup>, 2017.Document: Decision 4364/2017 23.11.2017</p>
8	8207/62/2011	Debtor under insolvency: CET SA Brasov Creditor: Transelectrica	Insolvency procedure	Recorded in the creditors' list for <b>4,303,741.44 Lei</b>	To continue the steps and capitalise the assets from the debtor's inventories, to settle all disputes and register the real estate, it pronounces the term on 10.05.2018. <b>Term: 15.02.2018</b>
9	22846/301/2012 49134/3/2012 Separated: 3198/2/2015 Re-registered in court re-referral under no. 44223/3/2016	Claimant: Petprod SRL Defendant: Transelectrica	Claims	<b>11,328,252.77 Lei</b>	<p>Denies as groundless the inadmissibility exception. Admits the exception of prematurity of the main request. Decides term on 7.11.2013, summoning the parties; appeal together with the substance case. Document: hearing conclusion 26.09.2013.</p> <p>Settlement in brief: Denies the main request as prematurely expressed. Admits part of the re-conventional request. Obliges the appealed claimant Petprod to pay 21,701,281.92 Lei to the appealing claimant Transelectrica. Obliges the appealed defendant to pay to appealing claimant Transelectrica the sum of 221,128.82 Lei as law court expenses. Appeal within 15 days from notification. Ruling 6799/ 28.11.2013 26.05.2015 Type of settlement: Admitting the appeal</p> <p>Settlement in brief: Admits the appeal filed by the plaintiff in appeal SC PETPROD SRL against the conclusion of 26.09.2013. Cancels in part the conclusion appealed against and refers the case to re-trial by the same law court, to settle the main request. Maintains the other provisions of the conclusion. Separates the judgment of appeals filed by the parties against civil sentence 6799/2013 pronounced by Bucharest Tribunal - Section VI Civil. According to article 36 of Law 85/2006 suspends the judgment of appeals filed by the parties against the civil sentence 6799/2013. Final. Appeal in 15 days from notification. Pronounced at public hearing. Document: Ruling 872/2015 / 26.05.2015 Filed appeal.</p> <p>Denies as groundless the appeal filed by the recurrent defendant CNTEE TRANSELECTRICA S.A. against civil ruling 872 of 26 May 2015, pronounced by the Appeal Court Bucharest – Section VI Civil. Admits in part the request for law suit expenses expressed by the plaintiff in appeal-claimant. Obliges the recurrent – defendant CNTEE TRANSELECTRICA SA to pay 4,500 Lei to the plaintiff-claimant SC PETPROD SRL by the Judiciary Administrator SCP INSOLVENCY AGENCY BANAT SPRL, as law suit expenses – lawyer's fee. Irrevocable.</p> <p>Settlement in brief: In accordance with article 36 of Law 85/2006, suspends judging the appeals filed by the parties against civil sentence 6799/2013. Final. Appeal right in 15 days from notification. Pronounced at public hearing.</p>



	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					Document: Conclusion - Suspension 26.05.2015 Term 20.09.2016 – Appeal Court Bucharest (ACB) maintains the suspension Term of Bucharest Tribunal: 15.03.2017. Defers pronouncement to 22.03.2017.
10	3294/2/2015	Claimant: Transelectrica Defendant: Ministry of Energy, Small & Medium-Sized Enterprises and of Business Environment, successor of the department for energy - Intermediate Body for Energy	Annulment of administrative deed, annulment of decision 238925/03.12.2014		Settlement in brief: Admits the law suit. Cancels decision 238925/25.03.2014 and the ascertaining note of irregularities 237432/09.10.2014, which also establishes the financial corrections. Decides returning to the claimant the sum of 2,190.150.20 Lei with the interest provided in the fiscal procedural code, from payment date until actual repayment. Denies the request to return the stamp fee. Appeal right. Pronounced at public hearing on 27.10.2015. Document: Ruling 2756/2015 27.10.2015 Admits the request. Decides adding the civil sentence 2756/27.10.2015, meaning it obliges the defendant to pay 400 Lei as law suit expenses to the claimant. Appeal within 15 days from notification. Pronounced at public hearing on 26.04.2016. Document: Ruling adding the disposition 1426/2016 / 26.04.2016 Filed appeal – the case is in the screening procedure The first court term will be set later on.
11	3694/3/2016	Claimant: RAAN Defendant: Transelectrica	Claims	15,698,721.88 Lei	Suspended until settlement of file 3014/2/2014 pertaining to appeal for annulment of ANRE decision.
12	7958/2/2016	Claimant: Transelectrica Defendant :Ministry of Energy - IBE	Contesting the decision 232127/20.05.2016		Settlement in brief: Denies as groundless the exception of inadmissibility for items 3 and 5 of the case. Admits the exception of inadmissibility for item 4 of the case (pertaining to compelling the defendant to approve the settlement of sums rejected for repayment by notifications associated to the repayment demands 1-3) and denies this request item as inadmissible. Denies the remaining case as groundless. Appeal within 15 days from notification. The appeal will be submitted to the Bucharest Appeal Court, Section VIII pending nullity. Pronounced at public hearing on 12.04.2017. Document: Ruling 1359/2017 / 12.04.2017 Appeal was filed, which is under screening procedure.
13	3256/85/2016	Claimant: Transelectrica Defendants: GOG METAL SRL and ELECTRO Construct System SRL	Claims	756,770 Lei	Settlement in brief: Admits the suspension request filed by claimant CNTEE Transelectrica SA in the contest reply. Decides suspending this case until final settlement of file 1658/2/2014 on the docket of the Appeal Court Bucharest. Appeal right as long as the case suspension lasts. Pronounced at public hearing on 02.03.2017. Document: Conclusion - Suspension 02.03.2017
14	5595/120/2010	Claimant: Transelectrica Defendant: SC Eco Energy SA	Claims	<b>16,604,203.24 Lei</b>	<b>Term: 26.09.2014</b> In accordance with the provisions of article 36 from Law 85/2006, it suspends judging the case.

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
15	40814/3/2014	Claimant: OPCOM SA Defendant: Transelectrica	Claims	582,086.31 Euro (2,585,161.72 Lei) + 84,867.67 Lei interest	<p><b>Term: 13.03.2018</b> Settlement: Admits the suing file of claimant Electricity and Natural Gas Market Operator OPCOM SA in contradiction with defendant National Power Grid Company Transelectrica SA. Obliges the defendant to pay 582,086.31 Euro, representing the sum the claimant paid instead of the defendant from the fine of 1,031,000 Euro applied by Decision of the European Commission on 05.03.2014 in the AT.39984 case, plus legal interest to such 582,086.31 Euro, calculated on 11.06.2014 until actual payment. Obliges the defendant to pay 37,828.08 Lei as law suit expenses. Appeal right within 30 days from notification. The appeal is submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing on 24 July 2015. Document: Ruling 4275/2015 / 24.07.2015</p> <p><b>Term: 10.10.2016</b> Settlement in brief: Admits the appeal. Changes the entire civil sentence appealed against, namely it denies the suing as groundless. Obliges the claimant plaintiff in appeal to pay 16,129.49 Lei law suit expenses, being judiciary stamp fee. Appeal within 30 days from notification. Pronounced at public hearing on 10.10.2016. Document: Ruling 1517/2016 / 10.10.2016</p> <p><b>Termen: 13.03.2018</b> <b>Admite recursul declarat de recurentul-reclamant Operatorul Pieței de Energie Electrică și Gaze Naturale – OPCOM S.A. împotriva deciziei nr. 1517/10.10.2016, pronunțată de Curtea de Apel București – Secția a V-a Civilă. Casează decizia atacată și trimite cauza, spre o nouă judecată, instanței de apel. Definitivă.</b></p>
16	1284/101/2015 24206/3/2015	Claimant: RAAN Defendant: Transelectrica	Claims	<b>11,637,439.66 Lei</b>	<p><b>Term: 22.05.2015</b> Settlement: Admits the exception of territorial incompetency. Declines ruling competency in favour of Bucharest Tribunal, Section VI Civil. No appeal.</p> <p><b>Term: 03.11.2015</b> Settlement: Admits the request as added. Obliges the defendant to pay 17,805,680.17 Lei to the claimant, as amount of the bonus and penalties. Denies the claimant's request to grant law suit expenses as groundless. Appeal within 30 days from notification, to be filed with Bucharest Tribunal, Section VI Civil. Document: Ruling 6075/2015 / 03.11.2015</p> <p>Filed appeal</p> <p>Settlement in brief: In accordance with article 413 para 1 item 1 the NCPC admits the suspension request filed by the claimant plaintiff in appeal by means of the judiciary liquidator EURO INSOL SPRL. According to article 413 para 1 item 1 NCPC decides suspending the appeal settlement until final solving of file 9089/101/2013/a152 on the docket of Mehedinti Tribunal. Appeal right during the entire suspension time. Appeal to be filed with the Appeal Court Bucharest, Section V Civil. Pronounced at public hearing on 12.01.2017. Document: Conclusion - Suspension</p>

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					T: 12.01.2017
17	7566/101/2014 26024/3/2015	Claimant: RAAN Defendant: Transelectrica	Claims	<b>10,048,628.86 Lei</b>	<p><b>T: 04.02.2015</b> Settlement: Admits the case; appeal within 30 days from notification. Document: Ruling 16/2015 / 04.02.2015 Filed appeal</p> <p><b>T: 30.06.2015</b> Settlement: Admits the appeal. Admits the appeal. Cancels the sentence and refers the case for settlement to the Tribunal of Bucharest, Section VI Civil. Final. Document: Ruling 509/2015 / 30.06.2015</p> <p><b>T: 28.11.2016</b> Settlement: Suspends the case according to article 413 (1) NCPC against article 411 (1) NCPC. Appeal according to article 414 (2) NCPC. Pronounced at public hearing. Document: Conclusion - Suspension 28.11.2016</p>
18	4569/107/2015	Claimant: Transelectrica Defendant: ROMENERGY INDUSTRY SRL	Claims	<b>11,881,453.01 Lei</b>	<p>Settlement: Admits the civil case filed by claimant CNTEL Transelectrica SA with the correspondence address to communicate procedural documents in Bucharest against defendant SC Romenergy Industry SRL and consequently:</p> <ul style="list-style-type: none"> <li>- Compels the defendant to pay 10,608,353.71 Lei as claims to the claimant.</li> <li>- Obliges the defendant to pay 122,419.53 Lei as judiciary expenses to the claimant.</li> </ul> <p>Appeal within 30 days from notification.</p> <p>Pronounced at public hearing on 9 June 2016 according to the provisions of article 396 of the Civil procedural code. Document: Ruling 1088/2016 / 09.06.2016.</p> <p>Transelectrica is recorded with 16,475,047.45 Lei in the creditors' list of file 2088/107/2016.</p>
19	4486/121/2015	Claimantr: Transelectrica Defendant: SC ARCELORMITTAL GALATI SA	Claims	<b>2,671,266.50 Lei</b>	<p><b>T: 01.04.2016</b> Settlement: Admits the prescription exception only with respect to the delay penalties calculated for 01.01.2012-23.03.2012, inclusive, provided in invoice 13760/26.11.2014. Denies the exception of inadmissibility as groundless. Admits in part the suing. Obliges the defendant to pay 2,656,221.60 Lei as the value of penalty invoices. Denies the other claims based on article 453 Civil procedural code, obliges the defendant to pay 30,167.22 Lei as law suit expenses; appeal within 30 days from notification. Pronounced at public hearing on 01.04.2016 Document: Ruling 113/2016 / 01.04.2016</p> <p><b>T: 13.05.2016</b> Settlement: According to article 442 Civil procedural code corrects the material error occurred in civil sentence 113/01.04.2016 of Galati Tribunal, namely instead of 2,656,221.60 Lei the defendant was obliged to pay as the value of penalty invoices, the actual correct amount of 2,468,419 Lei will be inscribed, and instead of 30,167.22 Lei representing law suit expenses the defendant was obliged to pay, the actual correct sum of 28,289.19 Lei will be written. Appeal within 30 days from notification. Document: Conclusion - amending the material error 13.05.2016</p> <p><b>T: 26.09.2016</b> Filed appeal: CIVIL RULING 151/A denies as groundless the appeals filed against civil</p>

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					<p>sentence 113/2016 and the conclusion of 13.05.2016 in file 4486/121/2015 of Galati Tribunal, Section II Civil.</p> <p>Filed appeal</p> <p><b>Term: 21.09.2017</b></p> <p>Defers the pronouncement one week. Admits the appeal. Refers the case for re-judgment to the Appeal Court Galati that on 02.02.2018 decided as follows: Civil ruling 17/A Admits the appeals filed by the claimant in appeal the National Power Grid Company Transelectrica SA in contradiction with the defendant in appeal SC ArcelorMittal SA Galati against civil sentence 113/01.04.2016 and the 13.05.2015 conclusion pronounced by Galati Tribunal. Changes in part the appealed sentence in this sense: Denies as groundless the exception of prescription invoked by the defendant's objection. Admits the suing filed by claimant National Power Grid Company Transelectrica SA in contradiction with defendant SC ArcelorMittal SA Galati and compels the defendant to pay 2,671,266.5 Lei to the claimant representing the amount of penalty invoices. Admits the accessory request and compels the defendant to pay 30,317.66 Lei to the claimant as law suit expenses, representing the judiciary fee of stamp fund. Repels the dispositions contradicting this decision and maintains the other provisions of the ruling appealed against. Changes entirely the 13.05.2015 hearing session conclusion of Galati Tribunal and consequently ascertains the material error amendment expressed in the case remains groundless. Admits the accessory request and compels the intimated defendant to pay 2,650.98 Lei to the claimant in appeal as law suit expenses representing judiciary stamp fee for appeal and action. Appeal right, which will be submitted to the instance the decision of which is appealed against within 30 days from notification. Pronounced on 02.02.2018, by placing the settlement to the parties' disposal by means of the instance registry. Document: Ruling 17/2018 / 02.02.2018</p>
20	43152/3/2014	Debtor under insolvency: SC ICPE Electrocond SA Creditor: Transelectrica SA	Insolvency procedure	Request to be recorded in the creditors' list for <b>2,705,330.98 Lei</b>	<p><b>T: 16.04.2018</b></p> <p>Settlement in brief: Defers judging the case to enable the judiciary administrator to take the necessary steps in order to continue the reorganisation plan.</p>
21	6473/111/2013	Debtor under insolvency: SC Electrocentrale Oradea Creditor: Transelectrica SA	Insolvency procedure	Request to be recorded in the creditors' list for <b>641,673.13 Lei</b>	<p>In accordance with article 107 para 1 let. B) from the Law on insolvency procedure, decides opening the bankruptcy procedure for debtors SC Electrocentrale SA. Appoints the provisional judiciary liquidator CITR- Bihor Branch SPRL seated in Oradea str. Roman Ciorogariu no. 24, that will carry out the attributions provided in article 25 of the law and whose retribution will be set later, depending on the settlement. In accordance with article 107 para 2 from the Law on insolvency procedure, decides dissolving the debtor company and taking away the debtor's administration right. Establishes the maximum term to submit the management to the liquidator, together with the list of documents and operations performed after opening</p>

No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms	
				the procedure on 18 January 2018. In accordance with article 61 and article 109 from the Law on insolvency procedure decides notifying the procedure opening to the debtor, the creditors and to the Office of the Commercial Register from Bihor Tribunal, through the Bulletin of Insolvency Procedures, in view of making the mention based on article 61 from the Law on insolvency procedure. Sets on 26 February 2018 the deadline to submit the demands for liabilities occurred during procedure. Sets the deadline to check up the liabilities, to elaborate, display and notify the additional liability table on 16 March 2018. Sets the term to settle possible contestations on 28 March 2018 and to display the final consolidated liability table on 11 April 2018. Sets the case hearing term on 11 April 2018, room 66, 9:00 h. Establishes the liquidator's task to set the date of the creditors' assembly meeting and to convene the debtor's creditors. Decides the liquidator to send notifications to all creditors. Decides communicating the decision to the law courts in whose jurisdiction is the debtor, as well as to all the banks where it has opened accounts. In accordance with article 113 from the Law on insolvency procedure, decides sealing all goods from the debtor's stocks and carrying out the other liquidation operations. Enforceable. Appeal within 30 days from notification, to be submitted to Bihor Tribunal. Document: Intermediary ruling 14/2018 / 10.01.2018	
22	1867/90/2010	Debtor under insolvency: SC Total Electric Oltenia SA Creditor: Transelectrica SA	Insolvency procedure Joint-stock companies – upon debtor's request	Recorded in the creditors' list for <b>14,085,415.27</b>	<b>T: 28.03.2018</b>
23	105/2/2017	Claimant: Transelectrica SA Defendant: Company of Maintenance Services to the Electricity Transmission Grid Smart SA	Contesting the execution of enforcement title 181/13.12.2016 and of summons 182/13.12.2016	4,259,531.72 Lei	Settlement in brief: In view of the contender's payment of the stamp judiciary fee in quantum of 900 Lei, taking into account the case subject was requalified from "deed cancellation" into "contestation upon execution". Document: Ruling conclusion 21.02.2018
24	18499/3/2013	Claimant: Popescu Mina Defendant: Transelectrica SA	Claims	<b>1,500,000 Lei</b>	Settlement in brief: Denies the request to add the body of proof with the assessing technical expertise as useless to the case. Pronounces the exceptions of the absence of active processual capacity, absence of passive processual capacity and inadmissibility as fundamental defence. Denies the case as groundless. Appeal right within 30 days from notification. Pronounced at public hearing on 24.11.2015. Document: Ruling 1404/2015 / 24.11.2015 Settlement in brief: Admits the request, decides returning the stamp fee in quantum of 1,431 Lei paid in this file by receipts 104913/23.04.2015, 207352/22.05.2015 and 248/10.06.2015. Enforceable. Appeal within 30 days from notification. Appeal to be submitted to Bucharest Tribunal section III civil. Pronounced at public hearing on 19.04.2016. Document: Ruling conclusion 19.04.2016

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
25	3269/3/2015	Claimant: Transelectrica Defendant SC Company of Maintenance Services to the Electricity Transmission Grid SMART SA	Claims	566,773.42 Lei	Settlement in brief: In accordance with article 242 para 1 Civil procedural code suspends judging the case. Appeal right to the superior instance during the entire suspension interval, which will be submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing on 25.11.2015. Denies the appeal as groundless. Final Pronounced at public hearing on 09.09.2016. Document - Ruling 348/2016. Term to continue judgment Bucharest Tribunal - 26.10.2016. Denies the request to re-open the judgment as groundless. Appeal right during entire suspension, to be submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing on 23.11.2016. Document: Conclusion - Suspension 23.11.2016
26	2033/111/2007 2033/111/2007*	Recurrent-claimants : Transelectrica through the Romanian State + Transelectrica by Cluj Branch Respondent in appeal, third parties: Mihes Cristian Radu, Mihes Marius-Tudor, Popa Florica Loredana, Corb Erika, Luca Ionut-Bogdan, Luca Viorica, Recurrent defendants: Mester Lavinia Eugenia, Mester Traian Recurrent: Prosecutor's Office from the Appeal Court Oradea	Appeal Expropriation as per Law 33/1994	Expropriation Law 33/1994 Compensations <b>275,310 EURO</b>	Settlement in brief: Admits as groundless the civil appeal introduced by plaintiffs in appeal - defendants Mester Traian and Mester Lavinia Eugenia and the request to adhere to the appeal expressed by claimant CNTEE TRANSELECTRICA SA BUCURESTI by CNTEE TRANSELECTRICA SA, TRANSMISSION BRANCH CLUJ, representing the Romanian State in contradiction with the respondents in appeal – third parties Luca Viorica, Luca Ionut-Bogdan, Mihes Cristian Radu from Oradea, Mihes Marius-Tudor, Popa Florica-Loredana and Corb Erika, against civil sentence 628 of 20 September 2007 pronounced by Bihor Tribunal, which it partly changes meaning that: Ascertain the real estate in kind consisting of extra-locality arable land of 636 m2 area, under new cadastre no. 12779 consisting of old cadastre no. 8630/19 written in CF NDF 7648 Oradea defendants' property is impacted by the building of the 400 kV trans-European OHL Oradea – Bekecsaba – tower. Decides expropriation for public utility of national interest of such real estate of 636 m2 area instead of 50 m2 and establishes the quantum of compensations to 5088 Euro instead of 477 Euro, sum payable in Lei at the official exchange rate on the effective payment date. Decides tabulating the Romanian State's property right in the land registry with 636 m2 associated to the fore-mentioned real estate as expropriation title instead of 50 m2. Admits the intervention requests in the interest of the plaintiffs in appeal Mester Traian and Mester Lavinia Eugenia, formulated by accessory third parties: LUCA VIORICA, LUCA IONUT-BOGDAN, MIHES CRISTIAN RADU, MIHES MARIUS-TUDOR, POPA FLORICA-LOREDANA and CORB ERIKA. Maintains the other stipulations of the sentence appealed against. Compels the plaintiff in appeal claimant NATIONAL POWER GRID COMPANY TRANSELECTRICA SA BUCHAREST by CNTEE TRANSELECTRICA SA, TRANSMISSION BRANCH CLUJ to pay to the respondent in appeal third party Luca Viorica 1500 Lei, law suit expenses in appeal. FINAL. Appeal within 15 days from notification. Pronounced at public hearing. Filed appeal <b>T: 27.10.2016</b> Ruling 2055: Denies the exception of appeal nullity stated by the recurrent defendants Mester Lavinia Eugenia and Mester Traian. Admits the appeals stated by the recurrent - claimant National Power Grid Company TRANSELECTRICA SA Bucharest



	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					representing the Romanian State and by the recurrent-defendants Mester Lavinia Eugenia and Mester Traian against Ruling 375 of 26 April 2016, pronounced by the Appeal Court Oradea, Section I civil. Repeals the contested ruling and sends the case for re-judgment to the same appeal instance. Irrevocable. <b>Term:03.04.2018</b>
27	7282/3/2017	Creditor: Transelectrica and others Debtor: Arelco Power SRL	Bankruptcy procedure	1,878,467.85 Lei liability to recover	Liability admitted in the preliminary liability table. Procedure term: 27.03.2018
28	4452/3/2017	Creditor: Transelectrica and others Debtor: Arelco Energy SRL	Bankruptcy procedure	20,996,030.49 Lei	Admitted liability of 20,041,519.94 Lei, mentioning that 954,510.55 Lei were settled by compensation. Initially the sum requested and admitted was 21,025,161 Lei. <b>Term.18.05.2018</b>
29	1372/3/2017	Creditor: Transelectrica and others Debtor: Transenergo Com	Insolvency procedure	6,850,000.98 Lei	Requested liability was admitted mentioning that: out of the total 6,858,660.28 Lei an amount of 1,983.36 Lei is taken (compensated); 69,808.42 Lei, of which 48642,11 Lei liability settled by TEL by enforcing the SGB and 21,166.31 Lei, liability deemed current, the amount of invoices issued after opening the insolvency procedure <b>Term:23.08.2018</b>
30	2177/99/2012/a40 2177/99/2012	CET SA Iasi – debtor under insolvency Transelectrica SA - creditor	Insolvency procedure	Recorded in the creditors' list for <b>1,935,308.24 Lei</b>	Denies the appeals expressed by the recurrent contenders. <b>Term to continue the procedure - 27.02.2018</b> Settlement in brief: Refutes the judiciary reorganisation plan of debtor SC CET SA (COMBINED HEAT AND ELECTRICITY PLANT IASI), seated in Iasi, Calea Chisinaului 25, and registered with ORC under no. J22/677/2002, CUI 14718982. In accordance with the provisions of article 107 para 1 let. B from Law 85/2006 on insolvency procedure decides beginning the general bankruptcy procedure of debtor SC CET SA (COMBINED HEAT AND ELECTRICITY PLANT IASI), Calea Chisinaului 25, registered with ORC under no. J22/677/2002, CUI 14718982. In accordance with the provisions of article 107 para 2 from the Law on the insolvency procedure, designates provisionally as liquidator the judiciary administrator MANAGEMENT REORGANIZARE LICHIDARE IASI SPRL seated in Iasi, str. Aleea Nicolina 82, Iasi County, registered with the Register of Professional Companies under no. 0120/31.12.2006, which will carry out the attributions provided in article 25 of the law. In accordance with the provisions of article 107 para 2 from the Law on the insolvency procedure, decides dissolving the debtor company and taking away the debtor's administration right. Sets on 21.03.2014 the maximum term to submit management to

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					the judiciary liquidator, together with the list of documents and operations performed after opening the procedure. Decides notifying the initiation of the bankruptcy procedure to the debtor, to creditors and to the Office of the commercial register from Iasi Tribunal, to make such mention by publishing in the Bulletin of insolvency procedures. Sets on 25.04.2014 the deadline to submit the demands for liabilities occurred during the procedure. Sets the term to check up the liabilities, to elaborate, display and notify the additional liability table on 26.05.2014. The deadline to submit the contestations to the liabilities occurred during the procedure will be of at least 10 days before 24.06.2014. Sets on 24.06.2014 the term to settle the contestations to the liabilities occurred during the procedure. Sets the deadline to elaborate and display the final consolidated liability table on 24.06.2014. In accordance with article 113 from the Law on insolvency procedure, decides sealing the goods of the debtor's stocks, blocking the real estates, the social parts and carrying out the other liquidation operations. Document: Intermediary ruling 17.09.2014.
31	2183/115/2010	CET ENERGOTERM RESITA SA – debtor under insolvency Transelectrica SA - creditor	Insolvency procedure	Recorded in the creditors' list for <b>1,516,714.71 Lei</b>	<b>T: 28.06.2018</b>
32	9089/101/2013/a 152	RAAN – debtor under bankruptcy Transelectrica SA - creditor	Bankruptcy procedure	Request to be recorded in the creditors' list for <b>89,360,986.06 Lei</b>	Transelectrica SA was included with 11,264,777.30 Lei in the table of RAAN debtors, in the category of liabilities resulting from the debtor's continued activity, as the sum requested by Transelectrica, 89,360,986.06 Lei, but 78,096,208.76 Lei were not recorded in the preliminary liability table on grounds that "it is not found in RAAN's accounting book as owed amount. Moreover, the request for 78,096,208.76 Lei was expressed late being associated to the 2011 – 2013 period, therefore the liability request should have been expressed when the insolvency procedure began, namely on 18.09.2013. A contestation to the Table was filed. Mehedinti Tribunal accepted the accounting expertise evidence. <b>Hearing term 22.03.2018</b> to acknowledge the answer to the objections against the Expertise report.
33	4328/110/2013	CET SA Bacau – debtor under insolvency Transelectrica SA - Creditor	Insolvency procedure	Request to be recorded in the creditors' list for <b>1,484,636.78 Lei</b>	<b>T: 08.05.2018</b> Displaying the report on funds on the instance door. Acknowledges the submission of the inventory minutes. Notifies to the judiciary liquidator to submit the proof it has notified the creditors about their submitting the funds report to the tribunal. Letter is sent to UAT Campulung to communicate whether the debtor has got goods recorded in the authority's books, and if so to indicate such goods. Establishes the term on 08.05.2018 in view of recovering from CET SA BACAU the liability held by the debtor, while elaborating a report on the funds obtained with respect to the liability which is about to be recovered and the distribution plan and to furthering the procedure. Pronounced at public hearing on 30 January 2018. <b>Term:30.01.2018</b>

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					Document: Ruling conclusion <b>30.01.2018</b>
34	20190/3/2015	Claimant: Transelectrica Defendant: SC Dagesh Rom SRL Defendant: Adrian Baicusi	Claims	<b>1,353,963.60 Lei</b> + interest	<b>T: 30.03.2018</b>
35	3616/101/2014 3616/101/2014*	Claimant: RAAN Defendant: Transelectrica	Claims	<b>1,090,831.70 Lei</b>	<p><b>T : 10.10.2014</b> Settlement in brief: Admits the action. Compels the defendant to pay 1,090,831.70 Lei representing the value of invoice 1300215/31.12.2013 to the claimant. Acknowledges the claimant has not asked for law suit expenses. Appeal right within 15 days from notification, which will be submitted to Mehedinti Tribunal. Pronounced at public hearing. Document: Ruling 127/2014 / 10.10.2014</p> <p><b>T: 05.11.2015</b> Settlement in brief: Ruling: Denies the appeals as devoid of interest. Appeal right within 30 days from notification. Appeal to be submitted to the Appeal Court Craiova. Filed appeal</p> <p><b>T:21.03.2017</b> Admits the appeal of defendant National Power Grid Company Transelectrica SA against ruling 843/2015 of 5 November 2015 pronounced by the Appeal Court Craiova, Section II Civil, which it repeals and sends the case for re-judgment to the same court as appeal instance. Final.</p> <p><b>T: 07.09.2017</b> Admits the appeals. Repeals the sentences and sends the case for competent settlement to Bucharest Tribunal, Section VI civil. Final. Document: Ruling 124/2017 / 07.09.2017 Admits the action. The sum was enforced by RAAN in 2014. Filed appeal within the legal term.</p>
36	45397/3/2015	C: Transelectrica D: TRADING COMPANY OET - OBEDINIENI ENERGIINI TARGOVTSI OOD – BUCHAREST BRANCH	Claims	<b>637,206.01 Lei</b>	<p><b>T: 24.06.2016</b> Settlement: Admits in part the prescription exception. Admits in part the suing request. Compels the defendant to pay 636,842.31 Lei to the claimant. Compels the defendant to pay 9,973.42 Lei to the claimant, as law suit expenses. Appeal within 30 days from notification. Such appeal is submitted to Bucharest Tribunal, Section VI Civil. Placed at the parties' disposal by means of the registry.</p> <p><b>T: 28.07.2016</b> Settlement in brief: Admits the request to amend the material error. Decides amending the material error from the considerations and the disposition of civil sentence 3956 of 24.06.2016 pronounced by Bucharest Tribunal, Section VI Civil, meaning that the sum</p>

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					of law court expenses the defendant was compelled to pay was 13,501.56 Lei instead of 9,973.42 Lei, as erroneously mentioned initially. Appeal within 30 days from notification. Such appeal is submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing. Filed appeal <b>T:16.03.2017</b> Defers pronouncement on 30.03.2017. Settlement in brief: Denies the appeals as groundless. Final. Pronounced at public hearing on 30.03.2017. Document: Ruling 635/2017 / 30.03.2017 <b>The parties filed appeal.</b> Settlement details, 07.12.2017: Cancels as non-stamped the appeal filed by the recurrent-defendant OET ROMÂNIA LTD BULGARIA BUCHAREST BRANCH against civil ruling 635/2017 of 30 March 2017 pronounced by the Appeal Court Bucharest, Section V Civil. No other appeal.
37	627/107/2016	C: Transelectrica  D: ROMENERGY INDUSTRY SRL	Claims	<b>1,748,339.29 Lei</b>	<b>T: 21.09.2016</b>  Settlement in brief: Case suspended in accordance with article 75 of L. 85/2014. Doc: Conclusion - Suspension
38	7226/3/2016	Defendant: Energy Holding  Claimant: Transelectrica	Claims	<b>1,073,561.72 Lei</b>	<b>T: 16.09.2016</b> Settlement: Admits in part the restricted and amended suing request. Compels the defendant to pay 1,050,000 Lei to the claimant as price for the services provided according to the fiscal invoice 6080 of 23.11.2015 and 14,129.79 Lei as delay penalties. Compels the defendant to pay 14, 916.48 Lei to the claimant as law suit expenses. Appeal within 30 days from notification. Such appeal is submitted to Bucharest Tribunal, Section VI Civil. Document: Ruling 5375/2016 / 16.09.2016. Filed appeal. <b>T: 04.03.2017</b> The instance approved the accounting expertise evidence. <b>T: 13.06.2017</b> Conducting the expertise and summoning by means of the judiciary administrator. <b>T: 08.05.2017</b> The defendant was declared insolvent. Suspended.
39	9089/101/2013/a140	Claimant: Transelectrica Defendant: RAAN	Claims	<b>86,513,430.37 Lei</b>	Suspended until settlement of file 3014/2/2014, pertaining to appeal in order to cancel a decision of ANRE.

No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
40 1396/90/2016	Transelectrica – creditor CET Govora - debtor	Request to be recorded in the creditors' list TP	<b>28,200,440.31 Lei</b>	CNTEE Transelectrica SA was enlisted in the Preliminary table with total liability of 28,200,440.31 Lei, according to the Company's request. The liability of 21,962,243.71 Lei, representing principal and penalties associated to invoice 8116/08.04.2016, has been recorded under the suspensive condition of pronouncing a final court ruling in favour of ANRE under file 2428/2/2014 on the docket of the Appeal Court Bucharest, pertaining to cancelling decision 738/28.03.2014 of ANRE. <b>Term: 02.04.2018</b>
41 1196/93/2016	Transelectrica – claimant UGM Energy Trading - defendant	Claims	<b>3,422,293.07 Lei</b>	<b>T: 20.09.2016</b> Settlement: In accordance with article 75 para 1 from Law 85 / 2014 regarding insolvency, it finds the lawful suspension has occurred.
42 1705/93/2016/A2	UGM Energy Trading SRL – debtor under insolvency	Claims	<b>3,515,687.51 Lei</b>	<b>T: 29.06.2016</b> Settlement: opening the general insolvency procedure. <b>T: 14.08.2016</b> Settlement: submission term of liability statement. The liability was admitted in quantum of 3,515,687.51 Lei, representing the value of invoices issued by our company for services provided to debtor UGM Energy Trading SRL, calculated by 29.06.2016, when the general insolvency procedure was initiated; the liabilities amounting to 200 Lei and 41,331.59 Lei claimed by our Company as judiciary stamp fees were denied. Contestation of table was submitted within legal term. Hearing term of such contestation: 09.02.2017. It was denied as groundless The tribunal decided on 03.08.2017 to open the bankruptcy procedure.
43 2088/107/2016	C: Transelectrica - creditor D: ROMENERGY INDUSTRY SRL - debtor	Request to be recorded in the creditors' list	<b>16,112,165.18 Lei</b>	<b>T: 30.06.2016</b> Settlement: opening the general insolvency procedure <b>T: 16.08.2016</b> Settlement: The entire sum was admitted. <b>T: 23.04.2018</b> To continue the bankruptcy procedure by capitalising the goods and recovering the liabilities. The judiciary liquidator will write and submit to the file on each 15 <sup>th</sup> day of every month the monthly activity reports for the previous months, as provided in para 1 of article 21 from Law 85/2006; - as regards the verification term- 5 days before the term, the synthesis report every 120 days, provided in the final part of para 1 from article 21 of Law 85/2006
44 35304/3/2016	Debtor: Electrocentrale Bucharest SA	Request to be recorded in the creditors' list	<b>2.286.832,15 Lei</b> (dc. Sum of	Settlement in brief: Admits the request of debtor SC ELECTROCENTRALE BUCHAREST SA seated in Bucharest 6, Splaiul Independentei 227, registered in the Commercial Register of Bucharest Tribunal under J40/1696/2003, Single registration (fiscal) code 15189596. In accordance with article 71 para 1 of Law 85/2014 on the insolvency preventing and insolvency procedures, opens the general procedure

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
		Creditor : Transelectrica SA		1,739,926.66 Lei is not compensated)	against debtor SC ELECTROCENTRALE BUCHAREST SA. Sets the following deadlines: a) deadline for creditors to submit their opposition to initiate the procedure - 10 days from notification, as well as the opposition settlement term that will not exceed 5 days from the expiry date of their submission; b) deadline to record the demand to have one's liabilities admitted over the debtor's assets – <b>08.12.2016</b> ; c) deadline to check up the liabilities, to draw up and publish the preliminary liability table in the Bulletin of Insolvency Procedures – <b>05.01.2017</b> ; d) deadline to complete the liability table – <b>02.02.2017</b> ;
45	40958/3/2016	Claimant: Transelectrica Defendant: TRADING COMPANY FOR MAINTENANCE SERVICES TO THE ELECTRICITY TRANSMISSION GRID SMART SA	Claims	<b>2,797,095.21 Lei</b> , VAT included + <b>1,211,694.26 Lei</b> accessories	In accordance with article 413 para 1 pt. 1 NCPC suspends judging the case until final settlement of file 1658/3/2014. Appeal during entire suspension. Pronounced at public hearing on 07.06.2017. Document: Conclusion - Suspension <b>07.06.2017</b>
46	345/40/2017	Claimant: Transelectrica Defendant: Elsaco Energy SRL	Claims	9,198,673.80 Lei	<b>Term: 26.09.2017</b> In accordance with article 75 of Law 85/2014 as against article 412 NCPC, suspends judging the case. Appeal during the entire suspension. Pronounced at public hearing on 26.09.2017. Document: Conclusion - Suspension 26.09.2017
47	10085/3/2017	Claimant: Electromontaj SA Defendant: SMART SA, Transelectrica SA	Claims	121099,16 Euro, value of absence of use of intervention towers  100,000 Euro, revenues that could be obtained from the towers' operation	<b>Term: 13.04.2018</b>
48	3052/99/2017	Debtor: Fidelis Energy SRL Creditor: Transelectrica SA	Insolvency procedure	2,219,985 Lei, invoices + 200 Lei, the judiciary stamp fee	The liability of 2,219,985 Lei was recorded in the Preliminary table. The sum of 200 Lei of the judiciary stamp fee was not recorded. <b>Term:08.03.2018</b>



No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
49 14733/3/2017	Debtor: Energy Holding SRL Creditor: Transelectrica SA	Insolvency procedure	1,199,910.16 Lei, invoices and judiciary stamp fees, the accounting expert's fee	We were recorded in the Preliminary table with 1,179,545.28 Lei as invoice values, and 20,364.88 Lei were denied as judiciary stamp fee and accounting expert's fee. Contestation of the preliminary table was filed for the denied amount. It was denied as groundless.  Term of appeal 02.04.2018
50 2236/118/2017	Debtor: Elcomex IEA SA Creditor: Transelectrica SA	Insolvency procedure	31,189,486.75 Lei	The liability was recorded in the creditors' list.  <b>Term:09.03.2018</b>
51 24552/3/2017	Claimant: Transelectrica Defendant: Asito Kapital	Payment ordinance - claims	31,180,857.96 Lei	<b>Term: 24.10.2017</b>  Settlement in brief: Admits the request. Orders the debtors to pay 2,237,750.83 Euro (equivalent of 9,948,592.64 Lei at 4.4458 Euro/Lei exchange rate) within 20 days from notification of this ruling, representing unreturned down payment secured by the indemnity letter BR-1500544/18.11.2015 for down payment and 4,821,022.53 Euro (equivalent of 21,233,265.32 Lei at 4.4041 Lei/Euro exchange rate) representing unreturned down payment secured by indemnity letter BR-1500520/29.07.2015 for down payment; 200 Lei as law suit expenses. With cancellation request right within 10 days from notification.  Document: Ruling 4067/2017 / <b>07.11.2017</b>
52 3093/3/2017	Debtor: Electrocentrale Bucharest Creditor: Transelectrica SA	Contestation of the preliminary liability table		Denies the request filed by contender NATIONAL POWER GRID COMPANY TRANSELECTRICA SA seated in Bucharest 3, Str. Olteni 2-4 in contradiction with debtor ELECTROCENTRALE BUCHAREST SA, by its special administrator, seated in Bucharest 6, Splaiul Independentei 227 and the judiciary administrator KPMG RESTRUCTURING SPRL seated in Bucharest 1, Sos. BUCHAREST-PLOIESTI 69-71 ground floor, app. CAM. 25, postal code 013685, pertaining to contestation of the preliminary liability table. Appeal within 7 days from ruling notification by publication in the BPI, to be submitted to Bucharest Tribunal, Section VII Civil. Pronounced at public hearing on 22.06.2017. Document: Ruling 3999/2017 / 22.06.2017 Settlement type: Groundless Settlement in brief: Denies the appeal as groundless. Final. Pronounced at public hearing on 21.11.2017.

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					Document: Decision 2112/2017 / 21.11.2017
53	20223/3/2017	Claimant: Teletrans Defendant: Transelectrica	Claims		Term: 16.03.2018
54	16216/3/2017	Claimant: Teletrans Defendant: Transelectrica	Ascertaining action for achievement of contractual obligations and claims		Term: 23.04.2018
55	28458/3/2017	Claimant : RAAN Defendant: Transelectrica	Claims – regularisation of Jan-Dec 2016 bonus, Decision 347/2017 of ANRE	2,106,843.49 Lei	Settlement in brief: Admits the suspension request filed by the claimant. Suspends judgment until final settlement of file 9089/101/2013/a152 on the docket of Mehedinti Tribunal. Denies the defendant's suspension as remaining objectless. Appeal right during entire suit suspension, to the superior instance. Such appeal is submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing on 25.10.2017.  Document: Conclusion - Suspension 25.10.2017
56	7141/2/2017	Contender: Transelectrica Respondent in appeal: ANAF	Cancellation of enforcement title no. 13540/22.08.2017	91,823,180 Lei	Settlement in brief: Admits the exception of material incompetence of the Appeal Court Bucharest, SCAF. Declines in favour of the Law Court of Bucharest 1 the material competence to settle the case. No appeal. Pronounced at public hearing on 08.02.2018. Document: Ruling 478/2018 <b>08.02.2018</b>
57	28460/3/2017	Claimant : RAAN Defendant: Transelectrica	Claim suit	12,346,063.10 Lei (Nov 15 – Apr 16 bonus; regularisation of	Term: <b>05.12.2017</b>  Suspended until final settlement of file 9089/101/2013/a152 on the docket of Mehedinti Tribunal.

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
				2015 bonus; delay penalties)	
58	33009/3/2017	Debtor: Photovoltaic Green Power  Creditor: Transelectrica SA	Insolvency procedure	Request to be recorded in the creditors' list for 693,073.51 Lei	Transelectria was recorded in the Preliminary liability table with the total sum of 693,073.51 Lei Term to continue the procedure: <b>12.03.2018</b>
59	39867/3/2017	Claimant: Bodu Sebastian Defendant: Transelectrica SA	Presidential ordinance suspending AGA decision on dividends distribution		Term: <b>10.11.2017</b> Denies the request as groundless. Mr. Bodu Sebastian filed appeal, which was denied by CAB as groundless.
60	39863/3/2017	Claimant: Bodu Sebastian Defendant: Transelectrica SA	Annulment action to repeal AGA decision 11/2017 on dividends distribution		Under preliminary procedure
61	37673/3/2017	Debtor: ENOL GRUP SA Creditor: Transelectrica SA	Request issuance of payment ordinance	2,541,312.00 Lei	Settlement in brief: Denies as groundless the request to issue payment ordinance demanded by creditor TRANSELECTRICA, in contradiction with debtor ENOL GRUP SA. Denies as groundless the creditor's request to have the law suit expenses paid. Acknowledges the debtor reserved the right to request separately law suit expense. With right to file annulment request within 10 days from the communication of this ruling, to be submitted to Bucharest Tribunal, section VI civil. Pronounced on 24.11.2017 and placed at the parties' disposal by the instance registry. Document: Final conclusion (disinvestment) 24.11.2017 Transelectrica filed annulment request registered under no. 555/3/2018.
62	48509/3/2017	Claimant: Transelectrica Defendant: Co. SMART SA	Claim suit	7,652,449 Lei + interest	Under preliminary procedure

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
63	47332/3/2017	Claimant: FF Wind Energy International Defendant: Transelectrica	Annulling the cancellation statement / claim suit	32,777,167.35 Lei, prejudice from termination of RET connection contract 85/2011  45,000,000 Euro (devaluation of company)	Under preliminary procedure

## Annex 5 - Glossary

"ANRE"	National Regulatory Authority for Energy
"ARB"	Asset regulatory base
"BSE"	Bucharest Stock Exchange, regulated market operator for trading Shares
"CLA"	Collective Labor Agreement concluded at the Company level
"EEC"	European Economic Community
"EEC"	Wind Power Plant
"PHPP"	Photovoltaic Power Plant
"TPP"	Thermal Power Plant
"PSHP"	Pumped-Storage Hydropower Plant
"NPP"	Nuclear power plant
"Company", "CNTEE"	National Power Grid Company Transelectrica SA
"OTC"	Own Technological Consumption
"BS"	Board of Supervisors
"CSR"	Corporate Social Responsibility
"d. c."	Double circuit
"NPD"	National Power Dispatcher
"EBIT"	Earnings Before Interest & Tax
"EBITDA"	Earnings Before Interest, Taxes, Depreciation and Amortization
"EBT"	Earnings Before Tax
"EMS-SCADA"	Main dispatch infrastructure (Energy Management System – Supervisory Collection And Data Acquisition)
"ENTSO-E"	European Network of Transmission System Operators for Electricity
"ENS"	Energy Not Supplied
"Euribor", "Libor", "Robor"	Interbank Interest Rate
"Formenerg"	Company for Training Romania's Power Engineers FORMENERG SA
"Group"	The company and its subsidiaries
"GD 627/2000"	Government Decision no. 627/2000 on reorganizing the National Electricity Company - S.A., published in Romania's Official Journal no. 357 of July 31 <sup>st</sup> , 2000
"GD"	Government Decision
"Icemenerg Service"	Company subsidiary "ICEMENERG-SERVICE" Bucharest, subsidiary of the National Power Grid Company "Transelectrica" SA
"IFRS"	International Financial Reporting Standards
"ISO"	Independent System Operator
"ITO"	Independent Transmission Operator
"JPY"	Japanese Yen , the official currency of Japan
"KPI"	Key Performance Indicator
"OHL"	Overhead Power Line
"Leu" or "Lei" or "RON"	The official currency of Romania
"MECRMA"	The Romanian Ministry of Economy
"OJ"	Official Journal of Romania

"GO"	Government Ordinance
"ONRC"	The National Trade Register Office
"OPCOM"	Romanian Electricity Market Operator OPCOM SA
"TSO"	Transmission and system operator
"GEO"	Government Emergency Ordinance
"pa"	Per annum
"CMBC"	The Centralized Market for Bilateral Contracts
"PCR"	The agreed Price Coupling of Regions for the future Single European Market for Electricity
"BM"	Balancing Market
"PCI"	Projects of Common Interest
"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"	The Company for Maintenance Services for the Power Transmission Grid SMART SA
"FSS"	Functional System Service
"TSS"	Technological System Service
"TEL"	Stock exchange symbol for Transelectrica
"Teletrans"	The Company for Telecommunication and IT Services in Electricity Transmission Grids TELETRANS SA
"TSR"	Total Shareholder Return
"EU"	European Union
"UM"	Unit of measurement
"USD" or "US dollars"	American Dollar, the official currency of the United States of America
"WACC"	Weighted Average Cost of Capital