









**NATIONAL POWER GRID
TRANSELECTRICA SA**

**QUARTERLY REPORT
January – September
2018**

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REPORT ON THE ECONOMIC – FINANCIAL ACTIVITIES OF THE NPG TRANSELECTRICA SA
according to the provisions of article 67 from Law 24/ 2017 on the capital market and Regulation 5/
2018 issued by the Financial Supervision Authority (ASF)

for the time period ended on 30 September 2018

Date of the report:	12 November 2018
Name of the trading company:	NATIONAL POWER GRIG TRANSELECTRICA SA, company managed under two-tier system
Headquarters:	Bucharest 1, Blvd. Gen. Gheorghe Magheru no. 33, postal code 010325
Working location:	Bucharest 3, Str. Olteni no. 2 - 4, postal code 030786
Phone / fax numbers:	021 303 5611/ 021 303 5610
Single code with the OCR:	13328043
Sequential number in the CR:	J40 / 8060 / 2000
LEI Code (Legal Entity Identifier)	254900OLXOUQC90M036
Date of Company establishment:	31.07.2000/ GEO 627
Share capital:	733,031,420 RON, subscribed and paid
Regulated market where the issued securities are transacted:	Bucharest Stock Exchange, Premium category
Main features of the issued securities:	73,303,142 dematerialised nominative indivisible ordinary shares of 10 RON/ share nominal value each, freely transacted from 29.08.2006 with TEL symbol 20,000 nominative dematerialised unsecured bonds of 10,000 RON / bond nominal value each, transacted on the BVB in Credit Titles sector – Category 3 Corporative bonds under TEL 18 symbol in their category; maturity date 19.12.2018
Market value:	1,722,623,837 RON (23.50 RON/share on 30.09.2018)
Accounting standard applied:	International financial reporting standards
Auditing:	The financial statements elaborated on 30.09.2018 have not been audited

STATEMENT OF RESPONSIBLE PERSONS

To the best of our knowledge, the interim, simplified, unaudited, stand-alone financial statements for the 9 months' period ending on 30 September 2018 have been elaborated in accordance with the applicable international accounting standard 34 (International Financial Reporting Standards as they are approved by the European Union) and they provide a fair truthful image of the assets, liabilities, financial position, profit and loss account of the National Power Grid Transelectrica SA.

This report contains accurate full information with respect to the economic-financial situation and activities of the National Power Grid Transelectrica SA.

Bucharest, 12 November 2018

**Adrian-
Constantin
RUSU**

**Directorate
Chairman**

**Andreea
Georgiana
FLOREA**

**Directorate
Member**

**Constantin
SARAGEA**

**Directorate
Member**

**Adrian-
Mircea
TEODORESCU**

**Directorate
Member**

**Viorel
VASIU**

**Directorate
Member**



Key figures 9 M 2018 vs 9 M 2017

The present translation of the Quarterly Report for January – September 2018 is provided as a free translation of the report in Romanian language, which is the official and binding version.

KEY FIGURES – 9 months 2018

FINANCIAL		
RON 1,832 mn	▼ 24.1% y/y	Revenues
RON 340 mn	▼ 1.6% y/y	EBITDA
RON 97.53 mn	▲ 50.5% y/y	Net profit
41.27 TWh	▲ 1.87% y/y	Billed energy**

OPERATIONAL		
2.55* %	▲ 0.38pp y/y	OTC
32.59 TWh	▲ 0.07% y/y	Transmitted energy***

OTC One's own technological consumption (losses)

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

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

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

INVESTMENTS		
RON 112.76 mn	▼ 16.6% y/y	Procurement of tangible and of intangible assets
RON 199.41 mn	▲ 100.4% y/y	Fixed assets recorded in account books (PIF)

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



Financial data

The synthesis of preliminary financial results on 30 September 2018 is provided in the tables below. The financial results have not been audited, and their extended variant for the same period is given in the Annexes to this Report.

Stand-alone profit and loss account

[RON mn], unaudited figures	9M 2018	9M 2017	Δ	Δ (%)
Billed volume of energy- TWh	41.27	40.51	0.76	2%
PROFIT-ALLOWED ACTIVITIES				
Operational revenues	852	884	(32)	(4)%
Transmission and other revenues from the power market	771	794	(22)	(3)%
Functional system services	47	52	(5)	(9)%
Other revenues	33	38	(5)	(12)%
Operational costs	498	493	5	1%
System operational costs	212	192	20	10%
Maintenance and repair	65	58	7	12%
Salaries and other retributions	137	132	5	4%
Other costs	84	111	(27)	(24)%
EBITDA	354	391	(37)	(9)%
Amortisement	226	234	(8)	(3)%
EBIT	128	157	(29)	(18)%
ZERO-PROFIT ACTIVITIES				
Operational revenues	980	1,531	(550)	(36)%
Technological system services	482	445	37	8%
Balancing market	498	1,085	(587)	(54)%
Operational costs	995	1,587	(592)	(37)%
Technological system services	497	502	(5)	(1)%
Balancing market	498	1,085	(587)	(54)%
EBIT	(14)	(56)	42	(75)%
ALL ACTIVITIES (PROFIT-ALLOWED AND ZERO-PROFIT)				
Operational revenues	1,832	2,414	(582)	(24)%
Operational costs	1,493	2,080	(587)	(28)%
EBITDA	340	335	5	2%
Amortisement	226	234	(8)	(3)%
EBIT	114	101	14	13%
Financial result	(6)	(14)	7	(54)%
EBT	108	87	21	24%
Income tax	10	22	(12)	(54)%
Net profit	98	65	33	51%

Stand-alone financial position statement				
[RON mn] unaudited figures	30 September 2018	31 December 2017 as per AGA decision 6/30.04.2018	Δ	Δ (%)
Non-current assets				
Tangible assets	2,917	3,044	(127)	(4)%
Intangible assets	23	16	8	51%
Financial assets	80	78	2	3%
Total of non-current assets	3,021	3,138	(117)	(4)%
Current assets				
Inventories	35	32	3	8%
Trade receivables	774	819	(44)	(5)%
Cash and cash equivalents	651	521	131	25.1%
Current assets total	1,460	1,371	89	6.5%
Asset total	4,481	4,509	(28)	(1)%
Shareholder's equities	2,821	2,718	103	4%
Non-current liabilities				
Loans	149	195	(46)	(23)%
Other liabilities	471	488	(17)	(4)%
Non-current liabilities total	620	684	(63)	(9)%
Current liabilities				
Loans	263	317	(54)	(17)%
Other liabilities	777	791	(14)	(2)%
Current liabilities total	1,040	1,108	(69)	(6)%
Liabilities total	1,660	1,792	(132)	(7)%
Shareholder's equities and liabilities	4,481	4,509	(28)	(1)%

Stand-alone cash flow statement				
[RON mn] unaudited figures	9M 2018	9M 2017	Δ	Δ (%)
Cash flow before changes of current capital	342	360	(18)	(5)%
Cash flow operating activity	354	103	251	n/a
Net cash from operating activity	336	87	250	n/a
Net cash used in investments	(96)	6	(102)	n/a
Net cash used in financing	(110)	(291)	181	n/a
Net increase/(decrease) of cash and cash equivalents	131	(198)	328	n/a
Cash and cash equivalents on 1 January	521	934	(413)	(44)%
Cash and cash equivalents at the end of the period	651	736	(85)	(12)%

OPERATIONAL RESULTS

Billed volume of energy

From January to September 2018 the total charged energy volume charged for services on the power market (41.27 TWh) recorded 1.87% increase compared to the same period of 2017 (the difference between the two periods being +0.8 TWh).

This trend manifested itself in each of the analysed months of 2018, predominantly in January and February, when the electricity consumption increased because of very low temperatures.

Operational revenues

The total operational revenues achieved in the first 9 months of 2018 have recorded 24% decrease compared to the same period last year (from RON 1.832 mn to RON 2.414 mn).

The segment of **profit allowed activities** registered 4% revenue drop (RON 852 mn in January-September 2018 from RON 884 mn in the same period of 2017), determined by diminished average tariffs of transmission services beginning with 1 July 2017 (decrease uncompensated by the tariff increase valid since 1 July 2018 and by the 1.87% increase in the electricity consumption)

Revenues from the allocation of interconnection capacities decreased 9% compared to what was obtained in the first 9 months of 2017 (RON 52 mn in the first 9 months of 2018 from RON 57 mn in the first 9 months of 2017) corresponding to the utilisation degree of available interconnection capacity by traders on the electricity market.

The mechanism for allocation of interconnection capacity consists of organising annual, monthly, daily and intraday auctions. The annual, monthly and intraday ones are explicit - only transmission capacity is auctioned, and the daily ones with Hungary are implicit – the capacity is allocated simultaneously with energy through the coupling mechanism.

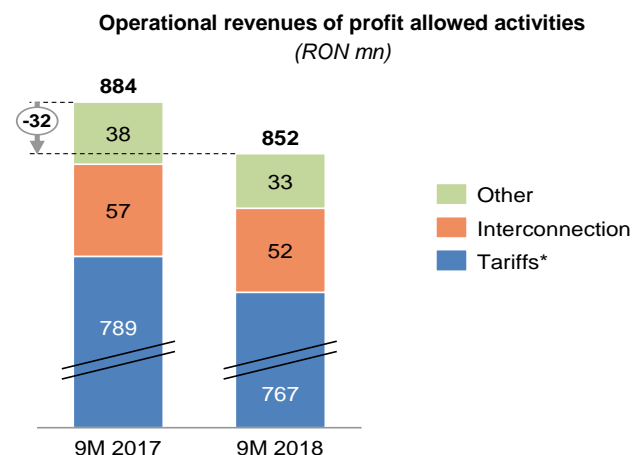
The establishment of the regional power market by Romania, Hungary, the Czech Republic and Slovakia starting on 19 November 2014 implies that these four countries will have a unique price for electricity traded on spot markets. The allocation of capacity between Romania and Hungary, the only country out of 3 that Romania shares a border with, is made by transporters: Transelectrica and MAVIR, by joint mechanism, based on a bilateral agreement.

Beginning with 2016 the UIOSI principle was implemented on the Bulgarian border and starting with 2017, on the Serbian border as well. According to this

principle, the participants that do not use the capacity they have obtained upon annual and monthly bids are remunerated (by Transelectrica) for the capacity in question. Unused capacity is sold later at daily auctions. On the border with Hungary things are the other way round, in the sense that MAVIR remunerates the participants for unused capacities.

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

The net revenues from the allocation of interconnection capacities are used in accordance with article 22 para (4) from Order 53/2013 of ANRE and with article 16 para (6) of Regulation (EC) 714/2009, as financing source for the modernisation and development of the interconnection capacity with neighbouring systems.



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

Revenues from zero-profit activities registered 36% decrease (RON 980 mn in the first 9 months of 2018 from RON 1,531 mn in the first 9 months of 2017) determined mainly by 54% lower revenues on the balancing market because of:

- Lower negative balances of electricity suppliers on the balancing market between 1 January and 30 September 2018 compared to 1 January - 30 September 2017;
- Physical notifications, in general exceeding the internal consumption at SEN level;
- Significant decrease in system balancing costs (result of power upgrade selections and thermal units start-ups) and revenue resulting from system balancing (result of power downgrade selections);

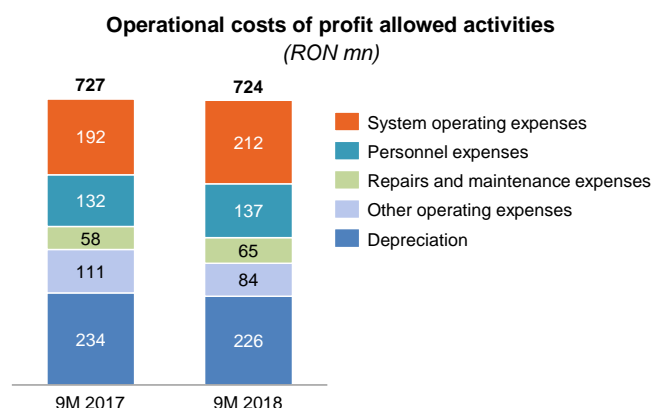
The balancing market is a business segment with zero profit for the Company.

From January to September 2018, the revenues of provided technological services increased 8% compared to the same period of 2017 as a result of the 1.87% increased amount of electricity delivered to consumers and the rise in the average tariff approved by ANRE for these services (see the table on average tariffs approved by ANRE for the analysed periods).

Operational expenses

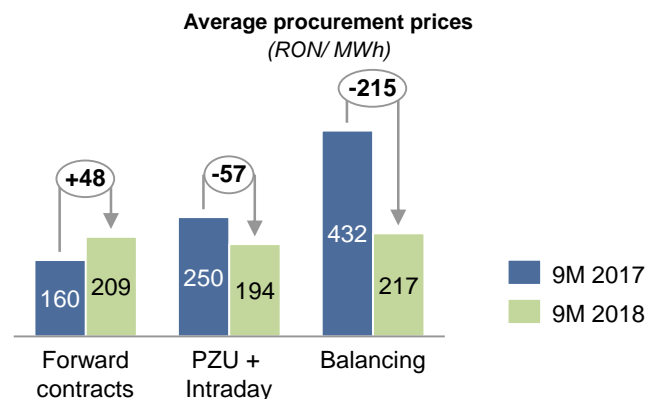
Total operating expenses (including amortisation) achieved between 1 January - 30 September 2018 decreased by 26% compared to the same period of the previous year (RON 1,718 mn from RON 2,314 mn in the same period of 2017), mainly following developments in the non-profit segment, but also as a result of registering lower amounts in the category of allowances.

On the segment of profit-allowed activities, expenses (including amortisation) decreased by 0.4% (RON 724 mn from RON 727 mn in the same period of 2017).



CPT: In January-September 2018 such expenses were higher by RON 23 mn compared to the same period of 2017 as a result of the increased amount of electricity needed to cover their own technological consumption in the RET by about 17.7 % (from 705,678 MWh from January to September 2017 to 830,793 MWh in the same period in 2018).

In the first nine months of 2018 CPT energy was purchased from the free electricity market, namely the Centralised Bilateral Contracts Market (PCCB), the Day-ahead Market (DAM), the Balancing Market (PE) and the Intraday Market (PI) at the average purchase price of 205 RON / MWh compared to the average purchase price of 214.1 RON / MWh in the same period of 2017.



* Estimated values

Beginning with 18.01.2018 the following Contract entered in force: "Power Procurement Contract to Cover the Imbalances from the Notified Quantities for the Power Technological Losses in the Power Transmission Network through Balancing Responsibility Transfer", C380/06.10.2014, concluded between NPG Transelectrica SA and CIGA ENERGY SA, whereby the energy purchase prices were reduced on the balancing market.

Congestions: Congestions (network restrictions) represent demands of electricity transmission exceeding the technical capacity limits of the network, requiring corrective activities of the transmission and system operator and they occur when, upon operational scheduling or during real time operation the power circulation between two system nodes or zones leads to infringing the safe operational parameters in the operation of a power system.

From 1 January to 30 September 2018 congestion expenses amounted to a total of RON 6 mn, mainly due to the failure registered on the 400kV Constanta Nord-Tariverde OHL in February 2018, RON 5.2 mn and a sum of RON 0.1 mn of congestion expenses determined by the observance of the N-1 safety criterion upon planned withdrawal of the 400 kV Rosiori - Mukacevo interconnection OHL.

The segment of **zero-profit activities** registered a 37% cost decrease (RON 995 mn from RON 1,587 mn in the same period of 2017), mainly due to the decrease of expenses on the balancing market similar to the evolution of the corresponding revenues.

These expenses result from the notifications/achievements of the participants on this market, being fully covered by balancing market revenues.

Between January and September 2018, expenses on technological system services registered a minor decrease of 1% compared to the similar period of 2017 determined by the purchase prices of technological

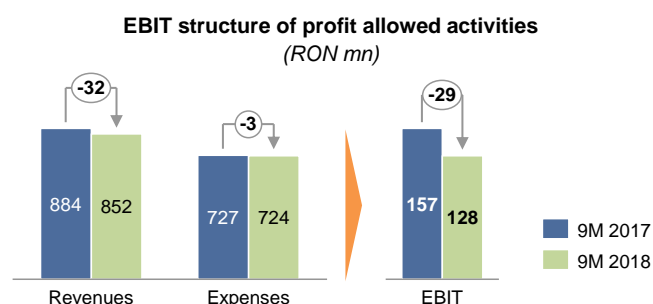
system services on the smaller competitive markets compared to the same period of the previous year .

During the 9 months of 2018 technological system services were purchased under regulated regime according to ANRE Decision 906/2017 (from Hidroelectrica SA) and according to GD 760/11.10.2017 approving the "Winter Energy Programme to Provide Safe Operation and Stability of SEN".

The Company re-invoices the value of technological system services purchased from the producers to the ANRE licensed power suppliers, who finally benefit from these services.

Operational result

Profit-allowed activities recorded a positive result of RON 128 mn, down from RON 157 mn (9M 2017), against the decrease in average transmission tariffs approved by ANRE for transmission service (5%) and functional system tariffs (10%) and as a result of the decrease in revenues from the allocation of interconnection capacity.

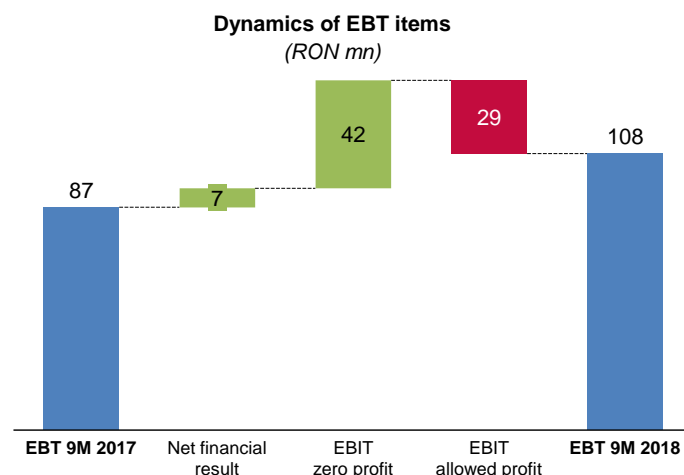


EBIT generated by **zero-profit activities** registered a negative result of RON 14 mn against the loss registered in the same period last year (RON -56 mn).

Gross profit (EBT)

Gross profit increased by 24% from RON 87 mn in January-September 2017 to RON 108 mn in January-September 2018.

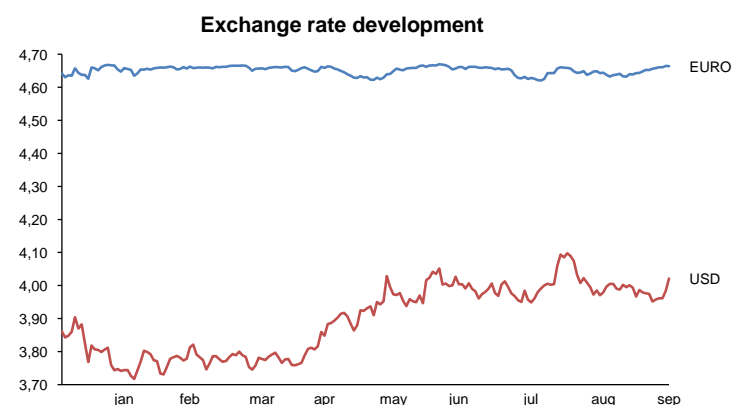
The dynamics of the profit recorded in January-September 2018 and January-September 2017, broken down by the constitutive items of profit is provided in the following graph:



Financial result

The net financial result registered in January-September 2018 was negative, amounting to RON 6 mn. The is less than the similar period of 2017, mainly influenced by the evolution of the national currency's foreign exchange rate in relation to foreign currencies in which the Company has contracted bank loans to finance investment programmes (Euro, Dollar).

The development of the Leu/Euro and Leu/USD exchange rates in the first nine months of 2018 is provided in the following graph.



Net profit

The gross profit was 24% higher in the first nine months of 2018 (RON 108 mn) compared to the same period in 2017 (RON 87 mn).

The net profit registered a comparable increase reaching to RON 98 mn in 9M of 2018, compared to RON 65 mn in 9M of 2017.

FINANCIAL POSITION

Non-current assets

Non-current assets recorded a decrease of about 4% in the first nine months of the year amid a decline in tangible assets.

On 30 September 2018, decrease was recorded in the value of tangible assets compared to 31 December 2017, as a result of the amortisement of such assets. In the first nine months of 2018, the tangible and intangible assets in progress are mainly represented by the investments performed in the high voltage power substations and lines, and the largest transfers from ongoing assets to tangible and intangible assets are mainly represented by the creation of assets related to investment objectives.

Current assets

Current assets recorded 6% increase on 30 September 2018 (RON 1,460 mn) compared to the value recorded on 31 December 2017 (RON 1,371 mn), mainly due to the increase in 'Cash and cash equivalents', of which bank deposits constituted for less than 90 days, consisting of the cash balances available in current accounts amounted to RON 361 mn, and on 31 December 2017 they amounted to RON 251 mn.

On 30 September 2018, clients on balance from operational activities recorded increase compared to 31 December 2017, mainly due to the tariff increase for power transmission services as of 1 July 2018.

For the balancing market, trade receivables on balance amounting to RON 208 mn registered value decrease as compared to 31 December 2017 (RON 244 mn), as a result of reduced transactions on this market.

On 30 September 2018, the Company registered receivable from the bonus type support scheme to promote high efficiency cogeneration of about 23% (26% on 31 December 2017) of total trade receivables.

The clients of the bonus type support scheme to promote high efficiency cogeneration registered decreased receivables on 30 September 2018, mainly due to:

- Collecting receivables corresponding to the ANRE decisions regarding the overcompensation of the cogeneration activity for 2017, amounting to RON 140 mn, registered according to ANRE decisions issued in March 2018,
- Collecting through bank transactions (RON 9.8 mn) associated to the overcompensation for 2015 from Termoficare Oradea (for Electrocentrale Oradea, according to Spread-out agreement),

- Decrease of the monthly contribution for high efficiency cogeneration, set by ANRE, starting with 1 July 2018.

On 30 September 2018, the Company registers receivables amounting to RON 189.9 mn, represented by issued invoices associated to the bonus type support scheme to promote high efficiency cogeneration, of which:

- 2011-2013 overcompensation amounting to RON 76.7 mn, namely from RAAN – RON 63.5 mn and from CET Govora SA – RON 13.2 mn;
- Undue 2014 bonus amounting to RON 3.9 mn, namely from RAAN – RON 2 mn, and CET Govora – RON 1.9 mn;
- Undue 2015 bonus amounting to RON 0.56 mn, namely from CET Govora – RON 0.53 mn, Interagro – RON 0.03 mn;
- 2016 overcompensation amounting to RON 56.7 mn, namely from Electrocentrale Bucharest;
- Contribution for cogeneration not collected from the suppliers of electricity consumers amounting to RON 20.8 mn, namely from: Transenergo Com – RON 5.8 mn, PetProd – RON 4.3 mn, Romenergy Industry – RON 2.7 mn, RAAN- RON 2.4 mn, UGM Energy – RON 1.8 mn, CET Govora – RON 0.9 mn, KDF Energy – RON 0.9 mn and others.

By the date of this interim financial report, the Company has fully collected the overcompensation liabilities under the 2017 support scheme as follows: receipts through bank transactions amounting to RON 90.9 mn from Electrocentrale Bucharest and proceeds based on compensations made through the Institute of Management and Information (in accordance with Government Decision 685/1999) amounting to RON 49.4 mn (of which: Electrocentrale Bucharest – RON 35.7 mn, CET Govora – RON 10.7 mn, Enet SA - RON 3 mn) .

To extinguish the liabilities generated by overcompensation and undue bonus, the Company has asked the producers qualified for the support scheme to make mutual compensations. In case of the producers that did not agree with this method of extinguishing mutual liabilities (RAAN, Electrocentrale Bucharest, and CET Govora) the Company has applied and further applies the provisions of article 17 para 5 from Order 116/2013 of ANRE president approving the Regulation determining the collection of contributions for high efficiency cogeneration and the bonus payment for the electricity generated under high efficiency cogeneration.

On 30 September 2018 'Other receivables' amounting to RON 118 mn mainly include:

- Sundry debtors (RON 102 mn) of which:
 - Late payment penalties calculated for late paying clients, amounting to RON 62.6 mn (of which RON 26 mn represent penalties under the support scheme). The highest penalties for late payment were registered by RAAN (RON 16.9 mn), CET Govora (RON 9.6 mn), Eco Energy SRL (RON 8.9 mn), Petprod SRL (RON 8.9 mn), Total Electric Oltenia (RON 3.3 mn), Arelco Power (RON 2.8 mn), Enol Group (RON 2.55 mn), Also Energ (RON 2.1 mn). Allowances were registered for the penalties calculated for late payment of liabilities from operational activities;
 - Amounts representing down payments granted to supplier ELCOMEX - IEA SA of RON 31.2 mn, for which penalties of RON 0.69 mn were calculated. The down payments were granted to supplier ELCOMEX - IEA SA for the execution of investment projects, covered by insurance policies issued by Asito Kapital SA.

The Company registered allowances amounting to RON 31.8 mn.

- Liability to be recovered from OPCOM representing VAT related to the in-kind contribution of RON 4.5 mn to the subsidiary's capital increase, for which the Company has registered allowances;
- Deferred expenses amounting to RON 5.5 mn mainly represented by down payments to contracts concluded with power suppliers necessary to cover the technological consumption for future periods (RON 1.4 mn), guarantee fee for BEI credit 25710 (RON 0.08 mn) and ING credit granting fee (RON 0.1 mn), contributions for 2018 paid to national and international bodies (RON 1.2 mn), rents (RON 0.7 mn), ANRE annual contribution (RON 0.8 mn);
- Other non-current liabilities amounting to RON 4.6 mn from which RON 4.2 mn represent guarantees for the land temporary occupation, calculated and retained according to article 39 para (1), para (2) and para (5) of Law 46/2008 on the Forestry Code, in order to achieve the 400 kV OHL Resita - Pancevo (Serbia) investment objective.

Liabilities

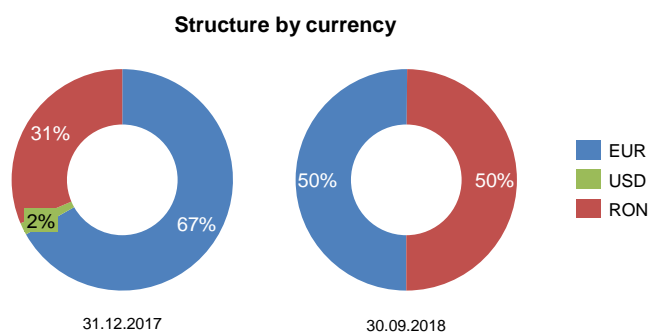
Non-current liabilities amounting to RON 620 mn on 30 September 2018 registered 9% decrease as a result of repayments made under existing loan agreements.

At the same time, **current liabilities registered 6% decrease** (from RON 1,108 mn on 31 December 2017 to RON 1,040 mn on 30 September 2018), mainly due to the decrease of trade and other liabilities (RON -21 mn), short-term loans (RON -54 mn).

Trade and other liabilities were 3% higher (from RON 700 mn on 31 December 2017 to RON 679 mn on 30 September 2018), mainly influenced by:

- The decreased balance of the power market suppliers by RON 135 mn, mainly because of:
 - RON 59 mn decrease in the balance of liabilities related to the balancing market due to the made payment obligations on balance on the power market on 31 December 2017 and the decreased volume of the balancing market transactions from August-September 2018 compared to quarter IV 2017,
 - Decreases of RON 95 mn in the liabilities related to the support scheme to the suppliers (producers) determined by the payment of invoices issued according to ANRE decisions for the undue bonus and the ex-ante overcompensation for 2017,
 - Increase of RON 123 mn in other liabilities, mainly due to:
 - Increased position of 'sundry payables' amounting to RON 111 mn, which mainly represents the net liability related to the support scheme to promote high efficiency cogeneration, which on 30 September 2018 amounted to RON 141,7 mn (31 December 2017: RON 30.4 mn).

Interest-bearing (non-current and current) **liabilities** are provided below, structured by currency.



SHAREHOLDER'S EQUITIES

Equities registered a 4% increase mainly due to the 10% increase in the retained earnings (RON 1,390 mn on 30 September 2018 compared to RON 1,259 mn on 31 December 2017), following the transfer of the 2018 result.

DEVELOPMENT OF SHARES

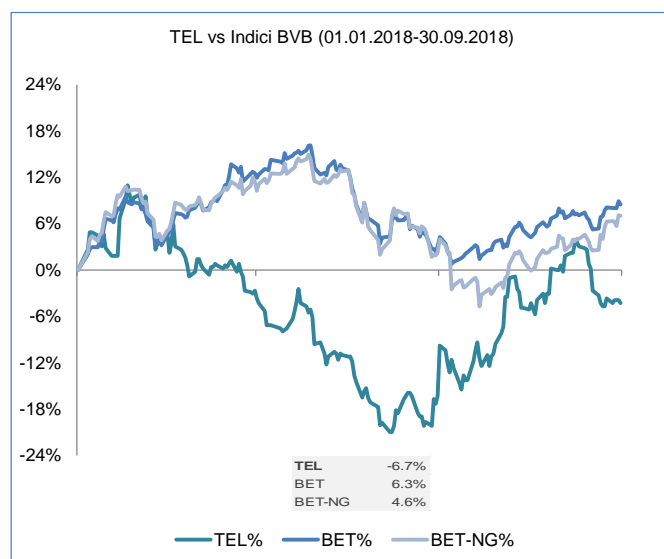
(01-Jan-2018 to 30-September-2018)

2018 started with a trading price of RON 24.55 share. The end of the period (30 September 2018) the market capitalisation was RON 1,723 mn the share's price is RON 23.50. The minimum trading price was registered on 04.06.2018, 19.40 RON/share, the maximum 27.25 RON/share being reached on 23.01.2018.

With 7.68% advance against the Euro from 25 July to 1 August, Transelectrica's shares were the most profitable titles in the BET index, its appreciation being 0.79% for that time.

Between July 25 and August 1, TEL's quotation fluctuated between 4.48% increase on 1 August related to volume of 26,987 units, above the average of the previous 20 days of about 7,350 shares and 0.46% advance registered on 26 July, in the context of a flow of 1,174 titles.

In August Transelectrica had a remarkable evolution on the Bucharest Stock Exchange, the Company's quotation recording almost 9.9% increase compared to July.





Operational data

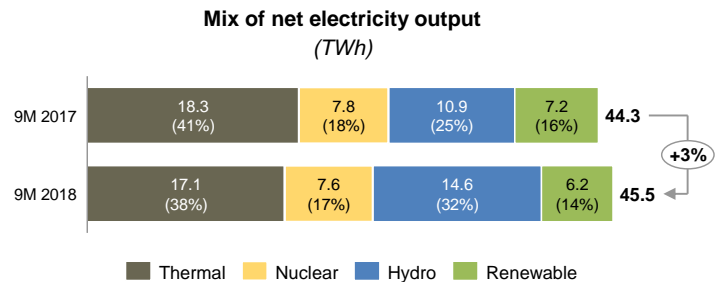
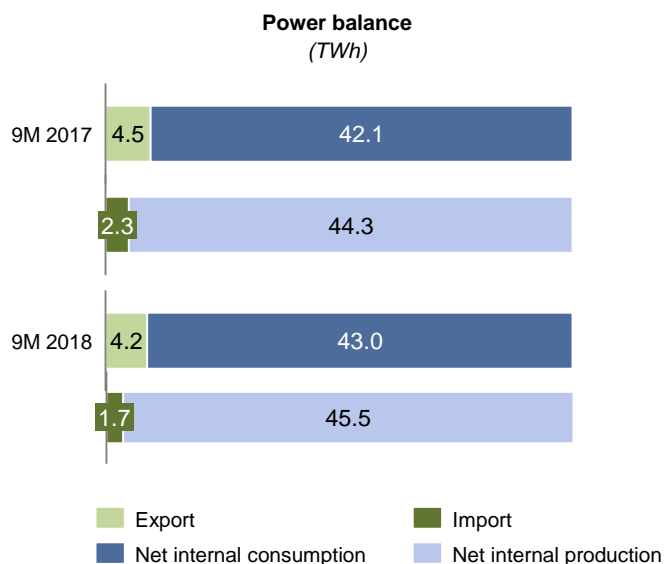
ENERGY BALANCE WITHIN SEN

Analysing the development of the energy balance components, net domestic consumption¹ increased by 2.1% and net energy production¹ grew 2.8% from January to September 2018 compared to the same period of the previous year.

Cross-border physical export exchanges decreased 6.5% compared to the same period of 2017, and cross-border import flows decreased 28.1%.

The contribution of the hydro component increased 33.5% (14.6 TWh compared to 10.9 TWh).

Examining the shares of the generation mix components in January - September 2018, the greatest share (38%) is represented by the thermal power component, followed by the hydro power one (32%), while the energy generated from renewable and nuclear sources have approximately a 14% and 17% share, respectively.



GENERATION MIX

In the structure of the generation mix, from January to September 2018 compared to the same period of the 2017, there was about 6.7% decrease of the thermal component share, 1.6% decrease of nuclear sources and 14.6% of renewable sources.

NATIONAL GENERATION FLEET

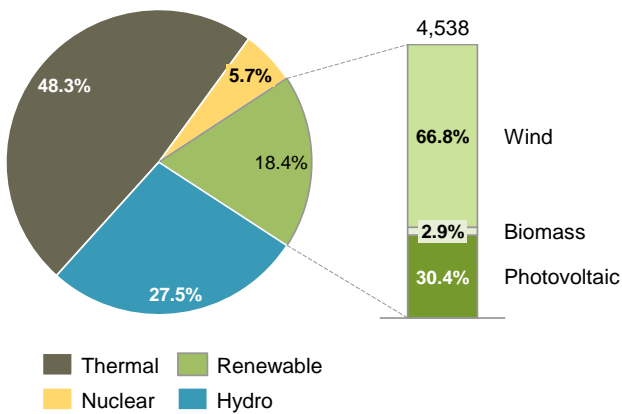
In the first nine months of 2018, gross installed capacity in electric power plants decreased by 0.5% compared to the same period in 2017.

The installed capacity in renewable source parks increased approximately by 0.06% from 4,536 MW installed on 30 September 2017 to 4,538 MW installed on 30 September 2018.

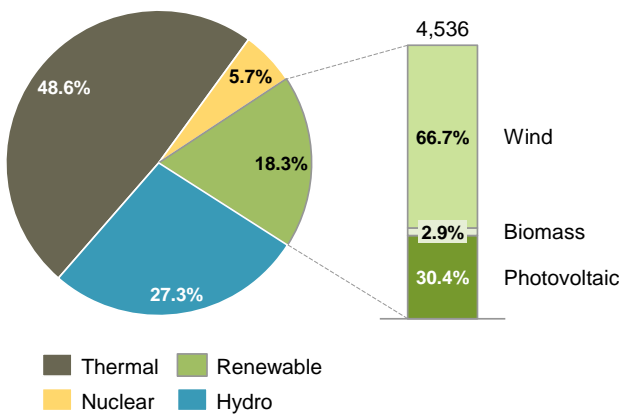
The dynamics of installed capacity associated to January - September 2018 and 2017, versus, is given below:

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

Installed capacity of 9M 2018 (24,612 MW, gross value)

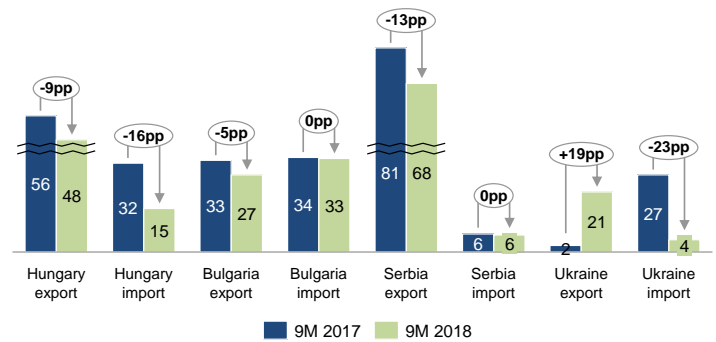


Installed capacity of 9M 2017 (24,738 MW, gross value)



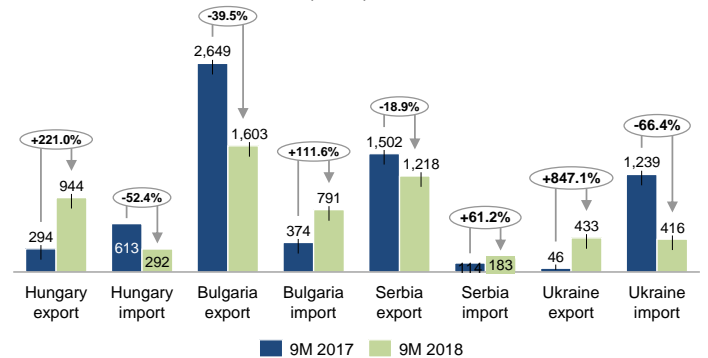
From January to September 2018 the utilisation degree of the total allocated capacity on the export interconnection lines decreased compared to the same period of 2017 for most destinations, registering an increase only in relation with Ukraine (+19 pp).

Utilisation degree of total allocated capacity (%)



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

Physical flows (GWh)



CROSS-BORDER FLOWS

The distribution of physical import/export flows on the interconnection lines in the first 9M of 2018 compared to the same period of 2017 is as follows:

- increased export and decreased import on the interconnection lines located in the deficient power generation areas (on the borders with Hungary and Ukraine),
- decreased export and increased import on the interconnection lines located in surplus power generation areas (on the borders with Serbia and Bulgaria).

Concretely, compared to the first nine months of 2017, physical export flows decreased with Bulgaria (39.5% - 1,046 GWh) and Serbia (18.9% -284 GWh), while in relation with Hungary (221% +650 GWh) and Ukraine (847% +387 GWh) they increased.

Examining the physical import flows, increases are noticed in relation with Bulgaria and Serbia while decreases are recorded in relation with Hungary and Ukraine.

ONE'S OWN TECHNOLOGICAL CONSUMPTION

Compared to the first nine months of 2017, in the first nine months of 2018, the CPT in RET increased by approx. 17.7%, while the power entering the RET outline was higher by only 0.07%.

The increase was mainly due to:

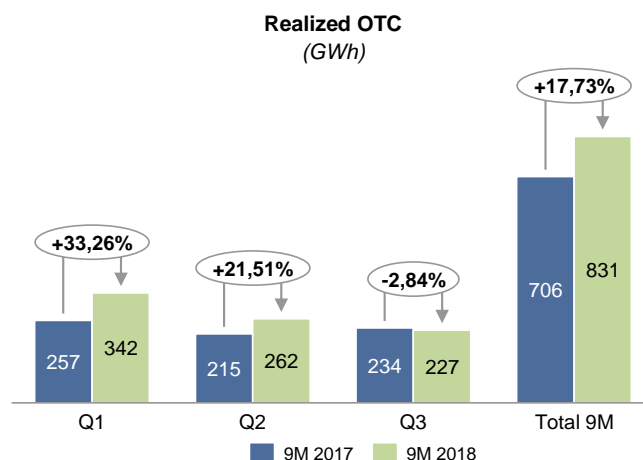
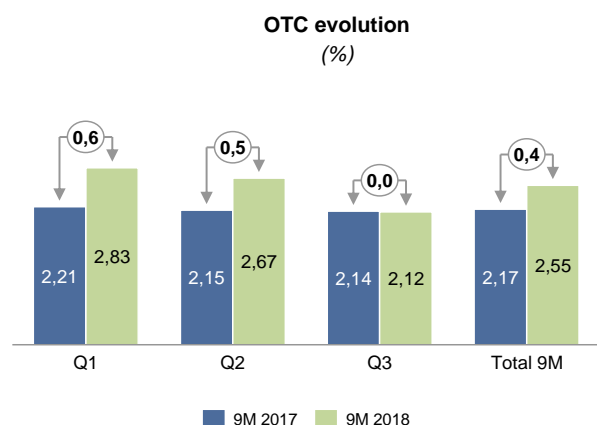
- The disadvantageous distribution of the physical import/export flows on the interconnection lines with the neighbouring systems;
- Bad weather conditions, characterised by greater precipitation quantities that have led to a significant increase in corona losses.

The significant increase of losses occurred in the first half of the year.

While the losses increased about 17.7%, the total cost incurred for their coverage increased about 14.6%, when the average purchase price dropped about 4.3%.

The amount of rainfall recorded in the first 9 months of 2018 was significantly higher than in 2017 in most geographical areas, contributing decisively to CPT growth by increasing the corona component.

As one can see, the factors that significantly influenced the CPT in 2018, such as by example rainfall and distribution of cross-border physical flows, are not under the control of Transelectrica.



PHYSICAL CPT INCREASE FACTORS

In the first quarter of 2018 the CPT in RET increased about 33.26% compared to the same period of 2017 due to unfavourable physical import / export flows and the disadvantageous generation distribution that led to increased energy transmission at long distances from sources and due to unfavourable weather conditions that caused a sharp increase in corona losses. In terms of power input in the outline, losses increased from 2.21% to 2.83%.

In the second quarter of 2018 the CPT in RET increased about 21.5% compared to the same period in 2017, mainly due to unfavourable import / export flows over the examined period. Due to the unfavourable generation distribution in April, as well as due to the much unfavourable weather conditions in June that led to a sharp increase in corona losses. In terms of power input in the outline, losses increased from 2.15% to 2.67%.

In July 2018, the absolute value of CPT increased compared to July 2017 by about 10.40%, due to disadvantageous physical import / export flows, which led to increased energy transmission at long distances from sources and due to unfavourable weather conditions that led to increased corona losses. The percentage of losses regarding power input in the RET increased from 2.02% in 2017 to 2.29% in 2018. Net domestic consumption was 1.71% higher than in July

2017. Power input in the outline dropped 2.44% in July 2018 compared to the same period of 2017. Weather conditions were bad, and precipitation amounts were higher than in the previous year.

In August 2018 the absolute value of the CPT decreased about 6.96% compared to August 2017, especially due to the favourable weather conditions that led smaller corona losses. The percentage of losses related to power inputs in the RET decreased from 2.18% in 2017 to 2.04% in 2018. Power input in the outline dropped 0.53% in August 2018 compared to the same period of 2017.

The precipitation amounts registered in August 2018 were lower than in 2017 in all geographical areas, excepting Oltenia, where they increased about 10%. In Muntenia and Dobrogea, two regions with high density of 400 kV lines, the decrease was up to 39% and 75%, respectively. This fact led to the reduction of losses in RET by approx. 6% compared to the previous year.

In September 2018 the absolute value of CPT decreased about 10.41% compared to September 2017 due to favourable weather conditions that have led to reduced corona losses. The percentage of losses related to power inputs in the RET decreased from 2.21% in 2017 to 2.04% in 2018. Power input in the outline dropped by 3.65% in September 2018 compared to the same period of 2017. Weather conditions were good, the registered precipitation amounts being lower than in the previous year.

In conclusion, **in the third quarter of 2018** the CPT in RET decreased about 2.83% compared to the similar period of 2017, mainly due to favourable weather conditions in August and September, which led to a significant reduction of corona losses. In terms of power input in the outline, losses decreased from 2.14% to 2.12%.



Investments

NON-CURRENT ASSETS RECORDED IN ACCOUNT BOOKS

The value of non-current assets registered in account books in the first nine months of 2018 was of RON 199.41 mn.

The greatest transfers of January – September 2018 from tangible assets underway to tangible assets are mainly represented by commissioning of investment objectives as follows:

- 400 kV interconnection OHL Resita (Romania) - Pancevo (Serbia) – RON 98.59 mn;
- Modernisation of 110 kV and 20 kV Suceava power substations – RON 16.65 mn;
- Modernisation of 400/110/10 kV Cluj Est power substation – RON 13.39 mn;
- Replacing the autotransformers and transformers of power substations - stage 2 – RON 11.59 mn;
- Upgrading the command-control-protection system of the 220/110/20 kV Sardanesti substation – RON 11.04 mn;
- Connecting Turnu Magurele, Mostistea, Stalpu, Teleajen substations to the optical fibre network of NPG Transelectrica SA - lot 2 – RON 4.51 mn;
- Remedying the failure to the 110-120 terminals of the 220 kV OHL Bucharest Sud – Ghizdaru – RON 4.27 mn;
- Replacing 2-200 MVA autotransformer, 231/121/10.5 in the 220/110 kV Resita substation – RON 4.25 mn;
- Video wall display equipment for control rooms related to DEN/DET dispatch centres – RON 3.69 mn;
- Integrated security system for power substations, stage IV (D.CA 16/2011) – RON 3.64 mn;
- Installing optical fibre and upgrading the tele-protection system of the 400 kV OHL Tantareni-Turceni and 400 kV OHL Urechesti - Rovinari – RON 2.85 mn;
- Coexistence regulation between 400 kV OHL Mintia - Arad, 15-20 section, and Lugoj - Deva Motorway, lot 4 – RON 2.69 mn;
- Installing optical fibre on 220 kV OHL Fundeni-Brazi Vest LEA - lot 1 – RON 2.39 mn;
- Modernisation of 220/110 kV Dumbrava substation – RON 2.15 mn;
- Modernisation of the 110/6 kV station from the 220/110/6 kV Pestis substation - RON 1.83 mn;
- Connecting consumption place MDF factory, located in Arges County, Oarja town, Ceausesti village, Armata point, fields 5 & 46, connection to the 110 kV bus-bar in the 220/110/20 kV

substation Pitesti Sud via a 110 kV LES (underground line) about 450 m long – RON 1.83 mn;

- Upgrading the SCADA system hardware platforms in Slatina substation – RON 1.79 mn;
- Regulating the proximity of the 400 kV OHL Mintia - Arad, 35-37 section, with the Lugoj - Deva Motorway, lot 4 – RON 1.50 mn;
- Computer technology - Hardware and Software - Laptops – RON 1.38 mn;
- Replacing of circuit breakers in power substations – RON 0.98 mn;
- Relocating 220 kV HV grids Sebes - Turda Motorway, Lot 1, km 0 + 000 - km 17 + 000, Section A - 220 kV OHL dc. Alba Iulia - Sugag, Galceag, km 7 + 800, in the opening 25-26 and km 11 + 080 - terminal 15 – RON 0.73 mn;
- Converting Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV- Stage I - 400 kV OHL Portile de Fier - (Anina) - Resita – RON 0.70 mn;
- Coexistence regulation between the 400 kV OHL Mintia - Sibiu LEA, in opening 6-8, and Lugoj - Deva motorway, Lot 4, Ilia - Deva km 77 + 361 - km 99 + 500 – RON 0.64 mn;
- Modernisation of laz staff building –RON 0,48 mn;
- Replacing accumulator batteries 1, 2, 3 and 4 of substation Portile de Fier -RON 0.42 mn.

PROCUREMENTS OF ASSETS

Procurements of tangible and intangible assets in the first 9 months of 2018 amounted to RON 112.75 mn compared to the same period of 2017 when the procurements amounted to RON 135.20 mn.

The balance of tangible and intangible assets in progress on 30 September 2018 is represented by the ongoing projects, the most significant of which are listed below:

- Refurbishment of 400/220/110/20 kV substation Bradu – RON 42.46 mn;
- Connection to RET of 300 MW WPP Ivesti, 88 MW WPP Falciu 1 and 18 MW WPP Falciu 2 through the new (400) / 220/110 kV substation Banca – RON 46.88 mn;
- Replacing system components of EMS SCADA AREVA - software & hardware components – RON 11.44 mn;

- Refurbishment of 220 kV substation Otelarie Hunedoara – RON 4.75 mn;
- Extending the business continuity and recovery after disasters services – RON 14.41 mn;
- Integrated security system in power substations, stage IV – RON 8.02 mn;
- Refurbishment of the 220/110 kV substation Turnu Severin Est – RON 18.56 mn;
- Connecting 400 kV Isaccea-Varna OHL and Isaccea-Dobrudja OHL to 400 kV Medgidia Sud substation – RON 10.86 mn;
- 400 kV OHL Cernavoda-Stalpu and connection to Gura Ialomitei – 10.49 mn;
- Converting Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV - Stage I – 400/200/110 kV substation Resita – RON 6.63 mn;
- 400 kV HVDC Link (Romania - Turkey submarine cable) – RON 5.85 mn;
- Refurbishment of the 400 kV substation Isaccea - Stage I - Replacing shunt reactors, related bays and the 400 kV Stupina bay – RON 9.38 mn;
- 400 kV OHL Gadalin – Suceava, including its interconnection to the SEN – RON 6.02 mn;
- Refurbishment of the 220/110 kV substation Hasdat – RON 4.52 mn;
- 400 kV OHL Suceava – Balti, for the part of the project located in Romania – RON 4.43 mn;
- Adding new functions to the control system and the computerised access record in the objectives of NPG Transelectrica SA – RON 3.20 mn;
- 400 kV OHL Gutinas - Smardan – RON 3.70 mn;
- Converting Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV- Stage II - 400 kV OHL Resita – Timisoara – Sacalaz (220/110 kV substation Timisoara), RON 23.70 mn;
- Connecting to the RET the 136 MW WPP Platonesti, Ialomita County, by making a 110 kV bay in the 400/110 kV substation Gura Ialomitei – RON 2.88 mn;
- Integrated security system in power substations, stage III – RON 2.79 mn;
- Modernisation of the 220/110/20 kV substation Arefu – RON 2.91 mn;
- Modernisation of the 220/110/20 kV Raureni – RON 3,25 mn;
- By-passing the 110 kV OHL Cetate 1 & 2 in the vicinity of 110/20/6 kV substation Ostrovul Mare – RON 2.57 mn;
- Connecting to RET the 99 MW WPP Dumesti and 30 MW WPP Romanesti, Iasi County, by making a 110 kV line bay in the 220/110 kV substation FAI – RON 2.54 mn;
- Modernisation of the 220/110 kV substation Dumbrava – RON 4.17 mn;
- Security solution to implement classified information security measures – RON 2.02 mn;
- Executive - DCBPA / CPA: Consolidation, modernisation and extension of headquarters NPG Transelectrica – RON 1.62 mn;
- Equipping the 110 kV north bay and replacing elements in the 110 kV bay Obor 2 from the 220/110/10 kV substation Fundeni –RON 1.66 mn;
- Refurbishment of the 220/110/20 kV substation Ungheni – RON 0.82 mn;
- Integrated security system in the new (400) 220/110 kV substation Banca – RON 1.13 mn;
- Optical fibre communication performed between 110 kV Pitesti Sud substation and remote control and surveillance centre of TB Pitesti installations – RON 1.11 mn;
- Connecting to RET 400 kV substation Stupina and the 400 kV OHL Isaccea-Varna – RON 0.87 mn;
- Refurbishing the 400/110/20 kV substation Tulcea Vest - construction part – RON 2.73 mn;
- 220 kV double circuit OHL Ostrovu Mare - RET – RON 0.75 mn;
- 400 kV OHL Oradea - Beckescsaba – RON 0.78 mn;
- 400 kV substation Stalpu – RON 0.75 mn;
- Converting the 220 kV OHL Brazi Vest - Teleajen - Stalpu to 400 kV, including procurement of 400 MVA 400/220/20 kV autotransformer, TB expansion works – RON 0.69 mn;
- Refurbishing the 400/110/20 kV substation Domnesti – RON 0.81 mn;
- Research and development centre of live work technologies and rapid intervention in SEN - Building centre – RON 1.77 mn;
- Connecting to RET the 33 MW WPP Sarichioi, Tulcea County, in the 110 kV OHL bay Zebil of 400/110 kV substation Tulcea Vest – RON 0.63 mn.
- Relocating the HV networks of Brasov - Targu Mures - Cluj – Oradea Motorway, section 2A Ogra - Campia Turzii, lot 2 Iernut - Chetani, km 3 + 600 - km 21 + 500 - 220 kV OHL Iernut - Ungheni circuit 2 – RON 0.69 mn;
- Modernising the 110 kV Bacau Sud and Roman Nord substations related to the 400 kV axis Moldova – RON 0.53 mn;
- Replacing the EMS SCADA AREVA system components - software & hardware components – RON 7.8 mn;
- Software licenses applicable to the 110 kV and 20 kV Suceava substations – RON 0.24 mn;

FINANCIAL ASSETS

The value of financial assets on 30 September 2018 compared to the same period of the previous year registered an increase mainly due to the Company's affiliation to the Regional Security Coordination Centre (CCSR) TSCNET Services GmbH by conducting a share purchase transaction.

The Shareholders' General Assembly decision 9 / 05.06.2018 approved the Company's affiliation to the Regional Security Coordination Centre, the amount of RON 2,207 mn representing the Company's participation to the share capital of TSCNET Services GmbH, the payment being made on 25.06.2018.

CONTRACTUAL ISSUES

The most important investment contracts signed between January-September 2018 are:

- Refurbishment of the 400/110/20 kV substation Smardan – RON 107.2 mn;
- Refurbishment of the 110 kV substation Medgidia Sud – RON 49.77 mn;
- Refurbishment of the 220/110 kV substation Hasdat – RON 49.7 mn;
- Refurbishment of the 220/110 kV substation Craiova Nord – RON 46.1 mn.



Significant events

JULY – SEPTEMBER 2018 EVENTS

- **Regulated tariffs applicable from 1 July 2018**

On 25.06.2018 Official Gazette 519 presents the ANRE Order 108 / 20.06.2018 regarding approval of the average tariff for transmission services, for the components of the transmission tariff for the introduction of power into the grid (TG) and the extraction of power from the grid (TL), the tariff for the system services and the regulated price for reactive power, practiced by the Company.

Therefore, the regulated tariffs for power transmission services and system services, applicable from 1 July 2018 are:

Service	Tariff applied until 30 June 2018	Tariff applied from 1 July 2018	Difference
	RON/MWh	RON/MWh	%
I. Power transmission	16.86	18.13	+7.5%
II. Functional system services	1.11	1.11	-
III. Technological system services	12.06	10.44	-13.4%

Tariffs applicable from 1 July 2018 will not impact the electricity prices for final consumers.

- **Moody's improves the Company's rating outlook from stable to positive**

The International Rating Agency Moody's Investors Service reconfirms last year's rating of the National Power Grid Company Transelectrica SA, respectively Ba1, with outlook improvement from stable to positive.

Moody's rating is a favourable objective opinion on Transelectrica's capability to sustain its financial obligations.

Improving the rating outlook from stable to positive, according to a press release of 4 July 2018, shows that Transelectrica has very strong, stable and predictable financial values, a process with development trends characterised by consistent implementation of regulatory standards, and this trend is expected to continue.

- **Change in the Directorate**

At the meeting of 24 August 2018, the Supervisory Board appointed as provisional Directorate members the following persons:

- Adrian-Constantin RUSU
- Andreea Georgiana FLOREA
- Constantin SARAGEA
- Adrian-Mircea TEODORESCU
- Viorel VASIU

The mandate is granted for a period of 4 months, starting with 17 September 2018, with possible extension, for a further two months.

In accordance with article 18 para (4) of the Company's Articles of association, the Supervisory Board elected Mr. Adrian - Constantin RUSU as Directorate Chairman (Executive Director General or Chief Executive Officer – CEO – of the Company), from 17 September 2018,.

- **Acceptance of mandate for provisional Directorate members**

The declaration of mandates acceptance was signed before the notary on 13/14 September 2018, their appointment becoming effective from 17 September 2018.

- **Amendments in the law on electricity**

The Official Gazette 604 of 16 July 2018 published Law 167 of 10 July 2018 for the amendment and completion of the Electricity and Natural Gas Law 123/2012.

- **Acceptance of upgrade works in the 400/220/110/20 kV transformer substation Suceava**

The company inaugurated on 27 July 2018 the upgrade works carried out in the 400/220/110/20 kV transformer substation Suceava, an important node of the Electricity Transmission Grid providing the safe operation of the National Power System and connecting the country's historical provinces. Launched in August 2015, the modernisation works focused on the 110 kV and 20 kV voltage levels and were performed by the association of Siemens SRL - EMSESNS PROD SRL. The investment value is over

RON 24 mn and relies entirely on the Company's own funds. The 400/220/110/20 kV Suceava substation is a major power node in the north of the country for the future 400 kV OHL Gadalin-Suceava, which will close the 400 kV ring between Moldova and Transilvania and for the future 400 kV OHL Suceava-Balti, part of the project to interconnect the power systems of Romania and the Republic of Moldova.

- **Completing the 'Studies on the new 400 kV double-circuit overhead line (OHL) between substations Smardan and Gutinas' project**

NPG Transelectrica SA completed the project 'Studies on the new 400 kV double-circuit overhead line between substations Smardan and Gutinas' co-financed by the European Union, under the financial assistance programme for actions of common interest in trans-European energy networks (TEN-E), based on the European Commission's Decision of 9 August 2012.

The purpose of this project was to analyse the opportunity and need to establish a new 400 kV OHL between the existing Smardan and Gutinas substations, according to ENTSO-E requirements, to the conclusions of other studies performed for the eastern area of the National Power System (SEN) and taking into account the connection to SEN of installed capacity from renewable or conventional sources.

Transelectrica is the Transmission System Operator in Romania, which manages, operates, maintains, upgrades and develops the transmission grid comprising 81 transformer substations, with a capacity of about 38,058 MVA and 8,834.40 km of 110 / 220 kV, 400 kV and 750 kV overhead lines, under the management of 8 transmission branches.

- **Support sponsorship for disaster-struck persons**

Alongside the Red Cross, Transelectrica provided sponsorships for the projects 'United for the community' and 'Support for the victims of 2018 floods', the disaster-struck people from the floods of June - July 2018. The beneficiaries of these projects were the disaster-struck people of the Neamt and Vrancea counties.

Granted amounts were used to rebuild dwellings and household annexes affected by floods, as well as to distribute food and clothing to affected families.

At the same time Transelectrica also sponsored the project 'Together we give', performed by Tulcea Red Cross, which consisted in the distribution of food and hygienic products to the needy families in Tulcea County.

- **Cernavoda Substation incident**

On August 16 at 18:57 h during the re-energising manoeuvres of the 400 kV OHL Cernavoda-Constanta Nord, which maintenance work was carried out to, the staff of Cernavoda substation made a wrong manoeuvre that disconnected Unit 2 of the Cernavoda Nuclear Power Plant. Following the incident, Unit 2 of the Cernavoda NPP did not trip but got insulated on auxiliary services. Unit 2 of Cernavoda NPP was put into operation in parallel with the National Power System at 21:05 h, the return to nominal capacity was achieved in about 6 hours. The incident had no impact on nuclear safety, facilities and personnel. It also did not impact the electricity supply to consumers.

- **Decision 10 of the Shareholders' General Extraordinary Assembly from 20 August 2018**

Decision 10 of the Shareholders' General Extraordinary Assembly held on 20 August approved the affiliation of NPG Transelectrica SA to the shareholders of the Joint Allocation Office SA - the European Centre for the Allocation of Cross-Border Capacity Transmission and mandated the NPG Transelectrica SA Directorate to fulfil all the formalities and documents related to the Company's participation to the Joint Allocation Office's share capital.

- **Transelectrica expedites investments in Dobrogea**

NPG Transelectrica SA announced completing the second stage of the refurbishment project for the 400/110/20 kV transformer substation Tulcea Vest, investment included in a wider series of completed projects, underway or ready to be initiated by Transelectrica in Dobrogea region.

The 400/110/20 kV substation Tulcea Vest is an important node of the electricity transmission grid and the main supplying source for Tulcea City, for the industrial platform comprising mainly ALUM Tulcea and the Naval Shipyard Tulcea. Refurbishing Tulcea Vest substation contributes to higher SEN operational safety in the south-eastern region by introducing new state-of-the-art equipment, and to decreased risks of electricity supply in Dobrogea region. Substation refurbishment included two stages: the first one in 2013-2015 and the second one in 2017-2018.

Transelectrica has completed, has in execution and is about to initiate work to six major projects of total amount over RON 390 mn:

- **Refurbishing the 400/110/20 kV substation Tulcea Vest** – stage two of the refurbishment process accepted in September 2018;

- **Refurbishing the 400 kV substation Isaccea**
– in execution, stage 1 will be completed in 2019, stage 2 – in 2025;
- **Refurbishing the 400/110/20 kV substation Medgidia Sud** – completion term: 2021;
- **Connecting the 400 kV OHL Isaccea-Varna and the 400 kV OHL Isaccea** – completion term: 2020;
- **Medgidia Sud – the 400 kV double circuit OHL Constanta Nord** – completion term: 2024;
- **400 kV OHL Tulcea Vest - Isaccea** – investment amounting to RON 3,673 mn completed in 2017;

• **NPG Transelectrica SA affiliation to TSCNET**

On 25 September 2018 NPG Transelectrica SA announced its affiliation as shareholder of TSCNET Services seated in Munich, one of the Regional Security Coordinators (RSC) for the European transmission network.

By Romania's affiliation TSCNET will provide network security services to grid operators from twelve European countries.

Transelectrica is the 15th shareholder of TSCNET.

The affiliation of NPG Transelectrica SA to the Security Coordination Centre of CORE region, TSCNET Services, was approved by the Shareholders' General Assembly of NPG Transelectrica SA, at the reunion of 5 June 2018.

• **Decision 11 of the Company's Shareholders' General Ordinary Assembly of 28 September 2018**

The Shareholders' General ordinary assembly of 28 September 2018 appointed as provisional members in the Supervisory Board of NPG Traselectrica SA, two months' mandate term as of 30 September 2018, the following persons:

- Gheorghe OLTEANU
- Ion CIUCULETE
- Liviu ILASI
- Adrian MITROI
- Alin-Sorin MITRICA
- Fanel MIHALCEA
- Constantin DUMITRU

The same reunion approved the amiable termination of the financial audit contract with Co. Deloitte Audit SRL.

• **Decision 12 of the Company's Shareholders' General Ordinary Assembly of 28 September 2018**

The Shareholders' General ordinary assembly of 28 September 2018 approved the rectified 2018 Revenue and Expense Budget, the form of the addendum to be signed by provisional members in the variant proposed by the Ministry of Economy, DPAPS' letter 37954/11.09.2018 as well as the 3 years' term for the financial audit contract, mandating the Company Directorate to initiate the procurement procedure in order to submit financial audit service contracting to AGA's approval.

SUBSEQUENT EVENTS

• **Fitch Ratings reconfirms the Company's rating BBB stable outlook**

On 12 October 2018 the Company announced the international credit rating agency Fitch Ratings reconfirmed the Company's long term rating at the level of the 2017 one, namely BBB stable outlook.

The appreciation of Transelectrica pertains to the third regulatory cycle applicable until mid- 2019 and took mainly into account the conservative balance approach and the rising trend of the Company's financial results, both sustained by national regulations of electricity transmission.

The rating reconfirmed by Fitch shows the Company's individual credit profile.

• **RSEEC 2018 Conference**

On 3-5 October the fourth edition of RSEEC took place in the Polytechnic University of Bucharest, an international event where Transelectrica was co-organiser next to the CIGRE Romanian Committee and the Polytechnic University of Bucharest.

• **Electrical and Power Engineering (EPE 2018) International Conference**

On 18 October 2018 the International Conference Electrical and Power Engineering (EPE 2018) took place organised by the Technical University Gheorghe Asachi in partnership with NPG Transelectrica SA, CNR CIGRE and the Romanian Academy's Energy Commission. Directorate members and the Company's executive and technical management attended this event, where the round table "Assets modernisation and operation" was a topical venue where presentations were submitted by representatives of the industrial, university and academic environments.

- **Incident in Stuparei substation**

When SMART SA installed some equipment into secondary circuits on Monday 22 October 2018 at 11:36 h the 220/110 kV transformer substation Stuparei (Valcea County) got de-energised. The incident impacted the substations in the south part of Valcea County, resulting in broken consumption of about 35 MW. The incident was repaired and consumers' supply was resumed in 12 to 15 minutes, except for an industrial consumer, resupplied after 23 minutes.

- **Agreement to end the financial audit services**

AGOA Decision 11 of 28 September 2018 provided the shareholders' approval to end amiably the financial audit contract C210/2017 requested by Deloitte Audit SRL

The Company signed the Ending agreement on 10.10.2018.

- **ASITO KAPITAL SA paid RON 31,18 mn**

On 06.11.2018 ASITO KAPITAL SA paid the amount of RON 31,18 mn to the Company in accordance with Civil ruling 4067/2017, representing the sum of 2,237,750.83 Euro down payment unreturned, which was secured under the bank indemnity letter for down payment BR-1500544/18.11.2015, as well as the sum of 4,821,022.53 Euro (equivalent of RON 21,23 mn at 4.4041 RON/Euro exchange rate), representing down payment unreturned, and secured under the bank indemnity letter for down payment BR-1500520/29.07.2015.



Other issues

SHAREHOLDERS' STRUCTURE

The Company's shareholder structure on 30.09.2018 was as follows:

Shareholder name	no. shares
Romanian State	43,020,309
Dedeman SRL	4,503,567
Other shareholders - legal persons	20,310,286
Other shareholders - natural persons	5,468,680
Total	73,303,142

DIRECTORATE MEMBERSHIP

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

Adrian-Constantin RUSU	Directorate Chairman
Andreea Georgiana FLOREA	Directorate Member
Constantin SARAGEA	Directorate Member
Viorel VASIU	Directorate Member
Adrian-Mircea TEODORESCU	Directorate Member

TARIFFS

The tariffs approved by ANRE (Order 108/2018) are provided in the table below:

Index	Tariff	m.u.	Approved value		Difference %	Approved value		Difference %
			Reporting period			Reporting period		
			1 January-30 September 2017			1 January-30 September 2018		
			1 Jan-30 June	1 July-30 Sept		1 Jan-30 June	1 July-30 Sept	
A	Electricity transmission	RON/MWh	18.70	16.86	-9.8%	16.86	18.13	+7.5%
B	Functional system services	RON/MWh	1.30	1.11	-14.6%	1.11	1.11	-
C	Technological system services	RON/MWh	11.58	9.39	-18.9%	12.06	10.44	-13.4%
	Billed quantity	TWh	52.0	54.0	-	54.0/55.0²	55.4	-

Further are provided the factors that significantly contributed to changing the tariffs at the last ANRE review (tariffs that entered in force on 01.07.2018).

² The amount of electricity used in order to approve the transmission tariff and the tariffs of functional system services was 54.0 TWh (1 July 2017), and the electricity quantity used in order to approve the tariff for technological system services (1 January 2018) was 27.5 TWh for semester I 2018 (55.0 TWh each year)

Electricity transmission services

The tariff increase (**+7.5%**) is mainly explained by two factors:

1. Ex-post corrections - applied to compensate the differences between estimated values used for tariff calculations in previous years and the actual registered values (final corrections for year 1 July 2016 - 30 June 2017, preliminary corrections for year 1 July 2017 - 30 June 2018) such corrections were negative but of lower absolute value compared to those applied in the current tariff. Ex-post corrections contributed **+6.5%** to the increase of the new tariff approved compared to the current one;

The most important calculation elements subjected to the ex-post corrections applied in order to calculate the newly approved tariff are: (i) electricity procurement price to cover one's own technological losses, (ii) the inflation index, (iii) using part of the revenues from the allocation of interconnection capacities as complementary source of the regulated tariff to cover regulated costs, (iv) higher electricity consumption above ANRE's forecast when it designed the tariff, (v) the partial investment correction;

2. The forecasted inflation used in the calculation of the newly approved tariff was higher than the forecasted inflation used in order to calculate the tariff of the current year (the inflation index used in the new tariff calculation is superior to the inflation index used in the calculation for the current year's tariff). The inflation index difference contributed **+4.6%** to changing the new tariff approved compared to the current one.

Besides positive corrections there have been other factors that contributed to the value of the new tariff approved and applied from 01.07.2018 compared to the tariff applied until 30.06.2018:

➤ The quantity of electricity that can be billed upon grid extraction was risen from 54.0 TWh to 55.4 TWh. Such change in the billed amount of electricity contributed **-2.5%** to changing the newly approved tariff.

➤ The annual basic revenue calculated as sum of annual regulated costs established using the 5 years' cost forecast approved by ANRE for the regulatory interval 01.07.2014-30.06.2019 is slightly higher than the annual basic revenue corresponding to the current tariff year. Flattening the series of annual revenues during the regulatory period led to redistributing the annual revenues of the period while maintaining the total value of the 5 years' cumulated revenue; revenues from one year to the next were impacted by a negative decreasing slope. The cumulated contribution of these two elements

described in this paragraph is **-1.0%** in changing the newly approved tariff.

Functional system services

The tariff was maintained due to the following individual calculation items whose net cumulated effect was zero:

➤ The ex-post negative correction included in the new tariff was lower in absolute value compared to the negative correction applied to last year's tariff. The ex-post correction contributed **+6.0%** to changing the newly approved tariff;

➤ The annual forecast of recognised costs in the new tariff approved is lower than the annual cost forecast included in the current year's tariff. The reduced annual cost forecast contributed **-3.4%** to changing the newly approved tariff;

➤ The quantity of electricity that can be billed at grid extraction was risen from 54.0 TWh to 55.4 TWh. Such change in the billed amount of electricity contributed **-2.5%** to changing the newly approved tariff.

Technological system services

Tariff drop (**-13.4%**) was determined by:

➤ The ex-post negative correction included in the newly approved tariff, set according to the methodology applicable for partial compensation (up to 80%) of the profit gathered by 30.06.2017. The profit obtained in this period was mainly achieved against a significant drop in unit procurement prices for technological system services under bids compared to the unit prices forecasted by ANRE and included with anticipation in the calculation of approved tariffs. In order to mitigate the impact over the regulated tariff, upon Transelectrica's request ANRE established a spread-out of corrections during two tariff years, 1 July 2017 – 30 June 2018 and 1 July 2018 – 30 June 2019, based on which the newly approved tariff was applied the second correction quota applicable to 1 July 2016 – 30 June 2017 as well as the unachieved part of the first quota. The ex-post correction contributed **-18.0%** to changing the newly approved tariff;

➤ The annual forecast of recognised costs in the new tariff to procure technological system services in the tariff year 1 July 2018 - 30 June 2019 is higher than the forecast of recognised costs in semester I 2018 (semester II of tariff year 1 July 2017 – 30 June 2018). The higher cost forecast was determined by higher bid procurement prices for technological system services in the current tariff period compared to ANRE-forecasted prices.

The higher annual cost forecast contributed **+5.4%** to changing the newly approved tariff;

➤ The quantity of electricity that can be billed at grid extraction was risen from 54.0 TWh to 55.4 TWh. Such change in the billed amount of electricity contributed **-0.7%** to changing the newly approved tariff.

The regulatory framework for technological system services (ANRE Order 45/2017) contains tariff

DISPUTES

The most important disputes that might impact the Company are provided further:

Note: To facilitate reading / understanding all sums of this chapter are expressed in RON / Euro

▪ RAAN

On the docket of Mehedinti Tribunal, Section II Civil of Administrative and Fiscal Disputes file **3616/101/2014** was registered, pertaining to “claims amounting to RON 109,083.70, the value of invoice 1300215/31.12.2013”, file where the Company is defendant and claimant is the Autonomous Regie for Nuclear Activities, RAAN.

Civil sentence 127 pronounced on 10.10.2014 by Mehedinti Tribunal decided admitting the request of Claimant RAAN and compelling the Company to pay RON 109,083.70, the value of invoice 1300215/31.12.2013.

The Company filed appeal and requested the instance whereby it requested the court a ruling admitting the appeal as it was expressed, cancelling the ruling and sentences appealed against and referring the case to the territorial competent instance in view of judgment, ascertaining the compliance with the provisions of article 1616-1617 Civil Code, for which reason it should ascertain the rightful compensation of mutual liabilities and their write-off until the concurrence of the smallest amount of the two, namely the total sum requested by the claimant in its summons, while compelling the respondent in appeal-claimant to pay the expenses with this appeal.

The appeal was recorded on the docket of the High Court for Cassation and Justice that decided cancelling ruling 843/2015 and referred the case to the Appeal Court Craiova for re-judgment.

Ruling 124/2017 of the Appeal Court Craiova admitted the appeal filed by Transelectrica and cancelled sentence 127/2014 pronounced by Mehedinti Tribunal, and the case was referred to Bucharest Tribunal, Section VI Civil for re-judgment. On the docket of

adjustment mechanisms after minimum six months from tariff approval, meant to provide in time full recovery of costs incurred by the Company when procuring such services. The Company will request the regulatory authority to apply such mechanisms on 1 January 2019.

Bucharest Tribunal the case was registered under no. 40444/3/2017, and by civil sentence 4406/04.12.2017 the court admitted RAAN's request and obliged Transelectrica to pay RON 1,090,831.70. The sentence was appealed against. Hearing term was set on 13.12.2018.

In 2014-2015 the Company withheld the bonus owed to RAAN under the support scheme according to the provisions of ANRE regulations, namely article 17 para 5 of Order 116/2013 of ANRE president.

Under such circumstances RAAN calculated penalties for its not collecting in due time the cogeneration bonus amounting to 3,496,914, which the Company withheld on account of uncollected receivables. The Company refused paying the amount of 3,496,914 and did not record it as liability under the support scheme.

File **9089/101/2013/a152** pertains to contestation against the Additional table of receivables against debtor RAAN. The disputed amount is RON 89,360,986.

Transelectrica SA was recorded in the table of debtor RAAN with RON 11,264,777, in the category of liabilities resulting from the debtor's continued activity, but the amount requested by our company is RON 89,360,986. The sum of RON 78,096,208.76 was not included in the table on grounds that “it is not mentioned as liability in RAAN's accounting books”. Moreover the judiciary liquidator considered the request to register RON 78,096,209 in the table was made late, as it pertains to 2011 – 2013, for which reason the liability statement should be expressed on the insolvency opening date, namely 18.09.2013. The contestation against the Additional table of receivables was submitted within the legal term, Mehedinti Tribunal accepting the accounting expertise evidence.

On the 14.06.2018 term case judgment is suspended until settlement of file 3014/2/2014 on the docket of the High Court for Cassation and Justice. On 28.06.2018 term is set to continue the procedure, namely to hand over the heavy water quantity, consolidating the creditors' mass after settling all contestations, continuing all procedures to recover receivables, representing the debtor company in court for recovery of receivables, completing the valuation of assets, elaborating the sale regulations and further capitalising the company's assets on 11 October 2018.

The procedural furtherance term was set on 14.02.2019.

▪ COURT OF ACCOUNTS

Following an audit session of 2013 in the Company, the Court of Audit required the Company to apply certain measures as a result of deficiencies it has found during this audit. Such decision and the conclusion issued by the Court of Audit were contested in the Appeal Court of Bucharest and file **1658/2/2014** was constituted pertaining to "cancelling audit acts" – Conclusion 7/20.02.2014 issued by the Court of Accounts.

On **13.06.2018** the claimant's suit is partly admitted. Cancels partly conclusion 7/20.02.2014, decision 37/9.12.2013 and the control report 35521/6.11.2012 issued by the defendant with respect to the measures required in the fore-mentioned decision in items I.1, I.3, I.6, I.8, I.11, II.14, II.15, II.17, II.18, II.20, II.21, II.22 and partially the measure of item II.13, which means removing the phrase „including those found in case of invoices issued by FLOREA ADMINISTRARE IMOBILIARA SRL". Denies as groundless the remaining parts of the claimant's suit. Sanctions the electric power technical report elaborated by expert Toaxen Vasile for the case. Compels the defendant to pay RON 121,375 to the claimant as law suit expenses (partial expert fees and judiciary stamp tax). Document: ruling 2771/2018, 13.06.2018.

Document: ruling 2771/2018. At the date of this report, the Decision is not drafted

Following an audit performed in 2017, the Court of Accounts required the Company to apply certain measures as a result of deficiencies it has found during this audit, NPG Transelectrica SA filed 8 contestations against the measures decided by Romania's Court of Accounts (CCR) by Decision 8/27.06.2017, requesting their cancellation, and against conclusion 77/03.08.2017, registered in the Company under no. 29117/08.08.2017, namely the Audit report 19211/26.05.2017. Contestations are under settlement on the dockets of the Appeal Court

Bucharest and of the High Court for Cassation and Justice.

▪ ANRE

NPG Transelectrica SA filed complaint against Order 51 / 26.06.2014 of ANRE president registered under no. 47714 / 04.08.2014 with ANRE and contestation to the Appeal Court Bucharest, which is under file **4921/2/2014**, requesting either amending the fore-mentioned Order or issuing a new order to recalculate the RRR back at 9.87% (recalculated with β coefficient of 1.0359, according to Transelectrica's internal studies) or, in case such contestation is denied, it requested using the same 8.52% percentage that ANRE established for 2013 and semester I of 2014.

On 26.06.2014 Order 51 of ANRE was issued and published in the Official Gazette no. 474/27.06.2014, which approved the average tariff for transmission services, the tariff of system services and the zone tariffs of transmission services charged by the National Power Grid Company Transelectrica SA and cancelled annex 1 to Order 96 / 2013 of ANRE president approving the tariff for transmission services, the tariff of system services, the zone tariffs for transmission services and the tariffs for reactive electricity charged by the economic operators from the electricity sector.

The values taken into account by ANRE when calculating the regulated rate of return (RRR¹) according to the Methodology establishing tariffs for electricity transmission services approved by ANRE Order 53/ 2013 ("Methodology") determined RRR of 7.7%.

On the 27.03.2018 term the expert fee placed on the claimant's account was paid and the decision will be to resend letter to the expert to make the required expertise report and submit it to the file.

On the 25.09.2018 term a new letter would be sent to the expert in order to make the expertise report and submit it to the file, mentioning it should prove it was impossible to submit the expertise report by the court term, therefore case deferral will be decided. A new hearing term is set on **22.01.2019**.

The dispute did not impact the relation with ANRE or the Company's financial results.

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

OPCOM

On 24.11.2014 Subsidiary OPCOM SA sued NPG Transelectrica SA in view of compelling it to pay 582,086.31 Euro (RON 2,585,161.72 at the BNR exchange rate of 24.11.2014) representing the amount it had paid as fine from the total fine of 1,031,000 Euro, request pertaining to file **40814/3/2014**.

Previously the Shareholders' General Assembly of Subsidiary OPCOM SA decided on 10.06.2014 to pay the fine in full amounting to 1,031,000 Euro applied by the General Directorate Competition of the European Commission for its trespassing article 102 of the Treaty regarding operation of the European Union according to Decision AT 39984 on the antitrust case.

Also Subsidiary OPCOM SA requested the instance to compel the Company to pay RON 84,867.67 as legal interest rate for the time interval 11.06.2014 – 24.11.2014.

The suit instituted by Subsidiary OPCOM SA is recorded under file 40814/3/2014, on the docket of Bucharest Tribunal, Section VI Civil, pertaining to claims, issue- dispute with professionals.

On the 24.07.2015 court session the instance admitted the summons filed by the Electricity and Natural Gas Market Operator OPCOM SA in contradiction with defendant the National Power Grid Company Transelectrica SA and compelled the defendant to pay 582,086.31 Euro to the claimant, representing the amount the claimant paid on behalf of the defendant from the 1,031,000 Euro fine applied under European Commission Decision on 05.03.2014 in the AT.39984 case as well as the legal interest to 582,086 Euro, calculated on 11.06.2014 until actual payment date. Also the instance compelled the defendant to pay RON 37,828 to the claimant as law suit expenses; appeal right within 30 days from notification. Transelectrica SA filed appeal against sentence 4275/2015 pronounced in the fore-mentioned file, recorded on the docket of the Appeal Court Bucharest.

The Appeal Court's settlement in brief: admits the appeal, changes fully the civil sentence appealed against, namely it denies the summons as groundless. Compels the respondent in appeal-claimant to pay RON 16,129 representing judiciary stamp tax. Appeal within 30 days from notification, pronounced at public hearing of 10.10.2016. Document: Ruling 1517/2016 of 10.10.2016.

OPCOM S.A filed appeal, which was recorded with the High Court for Cassation and Justice.

This Court's term: **13.03.2018**. Court settlement in brief: Admitted the appeal filed by the recurrent-claimant Electricity and Natural Gas Market Operator

OPCOM SA against ruling 1517/10.10.2016, pronounced by the Appeal Court Bucharest, Section V Civil. Cancels the ruling appealed against and refers the case to the appeal court for new judgment; final.

On the 01.10.2018 hearing term the Appeal Court Bucharest decided denying the appeal as groundless and compelling the respondent in appeal-defendant to pay RON 26,070.31 as law suit expenses to the respondent in appeal-claimant. Appeal right within 30 days from notification.

▪ ROMENERGY INDUSTRY SRL

On the Alba Tribunal is registered the file no. 2088/107/2016

Transelectrica filed an application for registration at the creditor's table with the amount of RON 16.112.165. The claim was admitted and entered in the Preliminary Table.

Solution in Brief: Approves the Report on Liquidation Funds and the Distribution Plan, based on Art. 160 paragraph 5 of Law 85/2014. Fixes the deadline on December 10, 2018, to continue the bankruptcy proceedings, by capitalizing on the assets and recovering the receivables. The judicial liquidator will prepare and submit to the file: - on 15th of the month, for the previous month, the monthly activity reports provided by par. 1 of art. 59 Law 85/2014; - for the verification period, 5 days before the deadline, the summary report to 120 days, provided by the final part of paragraph 3 of art. 59 Law 85/2014. Document: Closure of sitting 17.09.2018

▪ ASITO KAPITAL SRL

File 24552/3/2017 pertains to "payment ordinance – claims", dispute amounting to RON 31,180,857.96.

On the 07.11.2017 term after deliberation Bucharest Tribunal pronounced the following settlement, in brief:

- Admits the request;
- Enjoins the debtor to pay 2,237,750.83 Euro (equivalent of RON 9,948,592.64 at 4.4458 RON/euro exchange rate) within 20 days from notification of this ruling, representing unreturned down payment secured under indemnity letter for down payment BR-1500544/18.11.2015;
- Enjoins the debtor to pay 4,821,022.53 Euro (equivalent of RON 21,233,265.32 at 4.4041 RON/euro exchange rate) within 20 days from notification of this ruling, representing unreturned down payment secured under indemnity letter for down payment BR-1500520/29.07.2015;
- Enjoins the debtor to pay RON 200 as law suit expenses within 20 days from notification of this ruling.

Cancellation request right available within 10 days from. Document: Ruling 4067/2017, 07.11.2017.

On the elaboration date of this report Ruling 4067/2017-07.11.2017 was written and notified to the parties. On 01.11.2018 Ruling 4067/2017 - 07.11.2017 was legalised and sent to BEJ Raileanu in view of enforcing the executory title.

On the docket of Constanta Tribunal is file 2236/118/2017 pertaining to the request to be recorded with RON 31,189,486.75 in the creditors' list of Elcomex IEA SA. The liability was registered in the credited amounts provided the indemnity letters for down payment issued by Asito Kapital are enforced. Next procedural term: **07.12.2018**.

- **CONAID COMPANY SRL**

In 2013 Conaid Company SRL sued NPG Transelectrica for its unjustified refusal to sign an addendum to the connection contract or a new connection contract and requested claims for expenses incurred to date amounting to RON 17,419,508 and unrealised profits in 2013-2033 amounting to 722,756,000 EUR. To date the Company has not concluded addendum to the connection contract because the suspensive terms provided in the contract have not been complied with by Conaid Company SRL. A new connection contract should have been concluded by 11.03.2014, date when the technical connection endorsement expired. As of the date of these financial statements the amounts claimed by Conaid Company SRL were considered contingent liabilities since it is improbable to require resource outputs including economic benefits to settle this obligation, and the amount of such obligation cannot be assessed quite credibly. File 5302/2/2013 on the docket of the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section pertained to compelling the issuance of an administrative act, file stage- appeal, hearing term being set on 09.12.2015. On this term the High Court of Cassation and Justice admitted in principle the appeals and set the principal hearing term on 08.04.2016 for the appeals, Judge Panel 4, with parties' summoning.

Case judgment was deferred to 17.06.2016, when the instance deferred pronouncement on 29.06.2016, when it pronounced Ruling 2148/2016 deciding as follows: "Denies the exceptions brought by the recurrent-claimant Conaid Company SRL, by the judiciary administrator RVA Insolvency Specialists SPRL and by the recurrent-defendant Transelectrica SA. Admits the appeal filed by the defendant National Power Grid Company Transelectrica SA against the hearing conclusion of 18.02.2014 and the civil

sentence 1866 of 11.06.2014, pronounced by the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes. Cancels the conclusion and partly the sentence appealed against and refers the case to Bucharest Tribunal, Section VI Civil to settle the claimant's suit in contradiction with National Power Grid Company Transelectrica SA. Maintains the other provisions of the sentence as regards the claimant's suit against the National Regulatory Authority in the Energy domain. Denies the appeals filed by claimant Conaid Company SRL, by the judiciary administrator RVA Insolvency Specialists SPRL and by the intervenient Duro Felguera SA against civil sentence 1866 of 11.06.2014, pronounced by the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes. Denies the appeal filed by defendant National Power Grid Company Transelectrica SA against the hearing conclusion of 25.03.2014, pronounced by the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes; final, pronounced at public hearing on 29 June 2016.

On the docket of Bucharest Tribunal, Section VI Civil the case was registered under no. 12107/3/2017. The Tribunal admits the inadmissibility exception and denies the request as inadmissible by civil sentence 4364/ 23.11.2017. It also denies the intervention request to the claimant's interest. Appeal right within 30 days from notification. The appeal was submitted to Bucharest Tribunal, Section VI Civil and the parties' disposal by means of the court clerk today 23.11.2017

- **FF WIND ENERGY INTERNATIONAL SRL**

File 47332/3/2017 on the docket of Bucharest Tribunal, Section VI Civil, whereby Co. FF Wind Energy International SRL requests in contradiction with NPG Transelectrica SA: - cancelling the one-sided termination statement of the RET connection contract 85/14.03.2011 issued on 02.03.2016 under no. 8295, - compelling the Company to pay RON 32,777,167.35 as prejudice after contract termination and 45,000,000 Euro, representing the devaluation quantum of Co. FF Wind Energy International SRL by preventing it to achieve its purpose.

File stage: under preliminary procedure of suit notification and elaboration of objections. Hearing term: **29.11.2018**.

- **ANAF**

At the offices of Transelectrica SA general fiscal inspection took place targeting the interval December 2005 – December 2010. Such general fiscal audit began on 14.12.2011 and ended on 26.06.2017, date of the final discussion with Transelectrica SA.

ANAF-DGAMC established additional fiscal obligations payable by the Company, namely income tax and VAT, as well as accessory fiscal liabilities (interest/delay indexations and penalties) with respect to technological system services (STS) invoiced by energy suppliers, considered non-deductible after the fiscal audit.

In accordance with the taxation decision F-MC 439/30.06.2017, in total sum of RON 99,013,399, ANAF-DGAMC established additional fiscal liabilities payable by the Company, amounting to RON 35,105,092, as well as accessory fiscal ones (interest/delay indexations and penalties), amounting to RON 63,908,307.

ANAF's Fiscal audit report specifies mainly the following additional payment obligations: income tax amounting to 13,726,800, as well as accessories, owed for a number of 123 unused invoices found as missing (they were destroyed in the 26-27 June 2009 fire, in the working location from Millennium Business Centre of str. Armand Calinescu 2-4, Bucharest 2, where Company operated then), special regime documents.

These invoices were the issue of a dispute with ANAF that issued fiscal audit report on 20 September 2011 estimating payable VAT collected for a number of 123 unused invoices identified as missing.

The Company contested the Taxation decision F-MC 439/30.06.2017 within the legal term according to OG 92/2003 on the Fiscal procedural code.

ANAF issued the executory title 13540/22.08.2017 under which the additional payment liabilities established under Taxation decision F-MC 439/30.06.2017 were enforced.

The Company requested cancelling the enforcement title 13540/22.08.2017 from the Appeal Court in file 7141/2/2017. Settlement in brief: Admits the exception of the material incompetence of the Appeal Court Bucharest, SCAF. Declines the case settlement competence in favour of Law Court of Bucharest 1.

Pronounced at public hearing today 08.02.2018.
Document: Ruling 478/2018 of 08.02.2018.

Following competence declination file 8993/299/2018 was registered on the docket of Law Court of Bucharest 1 whereby the Company contested the enforcement initiated under the enforcement title 13540/22.08.2017, based on the Taxation decision 13540/22.08.2017, relying on the Taxation decision F-MC 439/30.06.2017.

Settlement in brief: Admits the request of judgment suspension filed by the contester. In accordance with article 413 para (1) pt. 1 civil procedural court suspends judgment until final settlement of file 1802/2/2018, on the docket of the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes. Appeal right during the entire suspension; appeal to be submitted to the Law Court of Bucharest 1. Pronounced at public hearing.

Document: conclusion - suspension 17.04.2018

On the docket of the Appeal Court is file 1802/2/2018 whereby the Company contested the administrative fiscal act, the Decision F-MC 439/30.06.2017.

After the Company's contestation of the administrative fiscal act, Decision 439/30.06.2017, ANAF notified the Company Decision 122/13.03.2018 which denies as groundless the contestation filed by NPG Transelectrica SA, which was received on 16.03.2018, after filing the summons under file 1802/2/2018.

The next hearing term on 06.11.2018 admitted the accounting - fiscalism expertise report.

The following hearing terms in the file was set on **08.01.2019**.

At the same time the Company is involved in disputes with former Directorate and Supervisory Board members with respect to the mandates contracts concluded between them and the Company.



Annexes

ANNEX 1: Stand-alone statement of financial position

[RON mn] unaudited figures	30 September 2018	31 December 2017 As per HAGA no. 6/30.04.2018	Δ	Δ (%)
ASSETS				
Non-current assets				
Tangible assets	2,917	3,044	(127)	(4)%
Intangible assets	23	16	8	51%
Financial assets	80	78	2	3%
Total non-current assets	3,021	3,138	(117)	(4)%
Current assets				
Inventories	35	32	3	8%
Trade and receivables	774	819	(44)	(5)%
Other financial assets	0	0	0	n/a
Cash and equivalents	651	521	131	25%
Total current assets	1,460	1,371	89	6%
TOTAL ASSETS	4,481	4,509	(28)	(1)%
SHAREHOLDER'S EQUITY & LIABILITIES				
Shareholder's equities				
Share capital, of which	733	733	0	n/a
<i>Share capital subscribed</i>	733	733	0	n/a
Share premium	50	50	0	n/a
Legal reserves	119	119	0	n/a
Revaluation reserves	467	500	(33)	(7)%
Other reserves	63	57	6	10%
Retained earning	1,390	1,259	131	10%
Total shareholder's equities	2,821	2,718	103	4%
Non-current liabilities				
Long term deferred revenues	395	411	(16)	(4)%
Borrowings	149	195	(46)	(23)%
Liabilities of deferred taxes	24	25	(1)	(5)%
Obligations regarding employees' benefits	53	53	0	0%
Total non-current liabilities	620	684	(63)	(9)%
Current liabilities				
Trade and other liabilities	679	700	(21)	(3)%
Other tax and social security liabilities	8	9	(1)	(11)%
Borrowings	263	317	(54)	(17)%
Provisions	42	42	1	(2)%
Short term deferred revenues	48	41	7	16%
Total current liabilities	1,040	1,108	(69)	(6)%
Total liabilities	1,660	1,792	(132)	(7)%
Total shareholder's equities and liabilities	4,481	4,509	(28)	(1)%

ANNEX 2: Stand-alone profit and loss account

[RON mn] unaudited figures									
Indicator	Q3 2018	Q3 2017	9M 2018	9M 2017	Budgeted 2018	Achieved 2018 vs 2017 9M	Achieved 2018 vs 2017 9M (%)	Achieved vs budgeted 9M 2018	Achieved vs budgeted 9M 2018 (%)
Operational revenues									
Transmission service revenues	266	240	771	794	768	(23)	(3)%	3	0%
System service revenues	155	142	530	497	540	33	7%	(10)	(2)%
Revenues from the balancing market	167	280	498	1.085	742	(587)	(54)%	(244)	(33)%
Other revenues	11	13	33	38	32	(5)	(13)%	1	3%
Total operational revenues	599	675	1,832	2,414	2,082	(582)	(24)%	(250)	(12)%
Operational expenses									
System operation expenses	62	63	212	192	199	20	10%	13	7%
Balancing market expenses	167	280	498	1.085	742	(587)	(54)%	(244)	(33)%
Expenses of technological system services	187	183	497	502	509	(5)	(1)%	(12)	(2)%
Amortisement	75	78	226	234	245	(8)	(3)%	(19)	(8)%
Salaries and other retributions	48	44	137	132	144	5	4%	(7)	(5)%
Repairs and maintenance	27	23	65	58	75	7	12%	(10)	(13)%
Materials and consumables	3	2	7	5	13	2	40%	(6)	(46)%
Other operational expenses	28	29	76	105	96	(29)	(28)%	(20)	(21)%
Total operational expenses	597	703	1,718	2.313	2.023	(595)	(26)%	(305)	(15)%
Operational profit	2	(28)	114	101	59	13	13%	55	93%
Financial revenues	6	4	14	16	6	(2)	(13)%	8	133%
Financial expenses	(7)	(10)	20	30	18	(100)	(33)%	2	11%
Net financial result	(1)	(5)	(6)	(14)	(12)	7	54%	6	50%
Profit before income tax	1	(34)	108	87	47	21	24%	61	130%
Income tax	920	0	10	22	7	(12)	(55)%	3	43%
Profit of the period	(0.5)	(34)	98	65	40	33	51%	58	145%

ANNEX 3: Stand-alone cash flow statement

[RON mn] unaudited figures	9M 2018	9M 2017	Δ
Cash flows from operational activities			
Profit of the period	98	65	33
Allowances for:			
Income tax expense	10	22	(12)
Depreciation and amortisation expenses	226	234	(8)
Expenditures with adjustments for trade receivables impairment	9	40	(31)
Reversal of adjustments for trade receivables impairment	(9)	(8)	(1)
Revenues net of allowances for impairment of sundry debtors	0	0	n/a
Net expenses with allowances for inventories depreciation	0	0	(0)
Net (profit)/loss from sales of tangible assets	0	1	(1)
Net expenses with allowances for tangible assets	1	1	(0)
Net expenses/(revenues) with provisions for risks and expenses	1	(8)	9
Interest expenses, interest revenues and unrealized revenues differences	7	13	(7)
Cash flows before changes in the current capital	342	360	(18)
Changes in:			
Clients and assimilated accounts - energy and other activities	(19)	(131)	111
Clients - balancing	35	120	(85)
Clients - cogeneration	29	(47)	76
Inventories	(3)	(2)	(1)
Trade liabilities and other liabilities - energy and other activities	140	8	132
Liabilities – balancing	(59)	(154)	95
Liabilities – cogeneration	(95)	(33)	(62)
Other tax and social security liabilities	(1)	(1)	0
Deferred revenues	(15)	(18)	3
Cash flows from operational activities	354	103	251
Interest paid	(6)	(8)	2
Income tax paid	(11)	(8)	(3)
Net cash from operational activities	336	87	250
Cash flows used in investments			
Procurements of tangible and intangible assets	(113)	(135)	22
Proceeds from non-reimbursable EC financing	12	-	n/a
Collected interest	6	4	1
Participation titles held in TSC NET	(2)	-	n/a
Proceeds from sales of tangible assets	1	-	n/a
Dividends cashed	1	2	(1)
Other financial assets	-	135	(135)
Net cash used in investments	(96)	6	(102)
Cash flows from financing activities			
Repayments of non-current loans	(108)	(125)	17
Dividends paid	(1)	(165)	164
Net cash used in financing activities	(110)	(291)	181
Net diminution of cash and cash equivalents	132	(198)	328
Cash and cash equivalents on 1 January	521	934	(413)
Cash and cash equivalents at the end of the period	651	736	(85)

ANNEX 4: Economic-financial indicators of the reporting period – unaudited results

Indicators	Calculation formula	9M 2018	9M 2017
Current liquidity (x)	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.40	1.78
Indebtedness indicators** (x):			
(1) Indebtedness indicator	$\frac{\text{Debt capital}}{\text{Shareholder's equity}} \times 100$	14.62	13.24
(2) Indebtedness indicator	$\frac{\text{Debt capital}}{\text{Committed capital}} \times 100$	12.76	11.69
Clients' turnover (days)	$\frac{\text{Average client balance}}{\text{Turnover}} \times \text{no. days}$	83.87	61.12
Non-current assets turnover (x)	$\frac{\text{Turnover}}{\text{Non-current assets}}$	0.60	0.75

* The clients contributing to the turnover (energy, balancing, other clients, invoices to issue to clients) were taken into consideration. The average balance does not include doubtful clients, the cogeneration scheme and overcompensation.

** In the calculation of indebtedness indicators for the 9L 2018 it was reflected both the long-term and the short term loans of the Company. For the 9 month period of 2017, it was reflected only the long term loans of the Company. For comparability, the recalculated version of indicators for 9 months 2018, are as follow:
Indebtedness indicator (1) = 5.30%, Indebtedness indicator (2) = 5.03%

ANNEX 5 REPORT (as per HAGEA 4/29.04.2015) on the contracts signed in the 3rd quarter / 2018 to procure assets, services and work amounting above 500,000 Euro/purchase (for assets and work) namely above 100,000 Euro/purchase (for services)

No.	Contract number	Contractual object	Term	Value		Contract type	Legal base	Procurement procedure
				Thous RON	Thous Euro			
0	1	2	3	4	5	6	7	8
1	C 145/2018	Refurbishment of the 110 kV substation Medgidia Sud	29 months	0.00	10.681	Work	Law 99/2016 + HG 394/2016	Open bid
2	C 190/2018	Upgrading the 400(220)/110/20 kV substation Munteni	34 months	43.306	0.00	Work	Law 99/2016 + HG 394/2016	Open bid
3	C 185/2018	Replacing AT and TRAF0 in substations, stage 2, phase 2 - LOT I (8 AT-s, 200 MVA)	43 months	0.00	8,498,	Work	Law 99/2016 + HG 394/2016	Open bid
4	C 131/2018	LOT 3 - 110 kV mobile bays	7.2 months	0.00	1,934,	Work	Law 99/2016 + HG 394/2016	Open bid
5	SB 28/2018	Special guard & monitoring services and intervention to the objectives of TB Sibiu	36 months	6.678	0.00	Services	Law 99/2016 + HG 394/2016	Open bid
6	SB 35/2018	Replacing the 220/110 kV AT2 in substation Gheorgheni	12 months	6.088	0.00	Work	Law 99/2016 + HG 394/2016	Open bid
7	C 186/2018	Replacing AT and TRAF0 in substations, stage 2, phase 2 - LOT II (4 TRAF0, 16 MVA)	25 months	0.00	1.125	Work	Law 99/2016 + HG 394/2016	Open bid
8	C 161/2018	Mobile phone and mobile internet services (framework agreement)	36 months	0.00	382	Services	Law 99/2016 + HG 394/2016	Open bid
9	BC 558/2018	Services to elaborate topographic-cadastre documents in order to tabulate the expropriated land surfaces for the investment to the 400 kV double circuit OHL Cernavoda-Stalpu connecting to substation Gura Ialomitei	12 months	942	0.00	Services	Law 99/2016 + HG 394/2016	Simplified procedure
10	C 177/2018	Subsequent contract 1 to framework agreement C 161/2018 - "Mobile phone and mobile internet services"	15 months	0.00	159	Services	Law 99/2016 + HG 394/2016	Re-offering
11	CR 41/2018	Specific guard services to the objectives of TB Craiova during 3 months	3 months	482	0.00	Services	Law 99/2016 + HG 394/2016	Negotiation with no preliminary invitation to competitive bid procedure
12	CT 703/2018	Mowing services and removal of vegetation from TB Constanta	24 months	474	0.00	Services	Law 99/2016 + HG 394/2016	Open bid

ANNEX 6: Main clients and suppliers

No.	Main clients	Turnover 9M 2017 (RON mn)	Main clients	Turnover 9M 2018 (RON mn)
1	CIGA ENERGY SA	758	REGIA AUTONOMA PENTRU ACTIVITATI NUCLEARE	71
2	OPERATORUL PIETEI DE ENERGIE ELECTRICA SI DE GAZE	523	ELECTRICA FURNIZARE SA	31
3	SOCIETATEA ENERGETICA ELECTRICA SA	368	ELECTROCENTRALE BUCHAREST SA	58
4	ELECTRICA FURNIZARE SA	309	CIGA ENERGY SA	30
5	E.ON ENERGIE ROMANIA SA	256	MAVIR MAGYAR VILLAMOSENERGIA-IPARI ATVITELI RENDSZ	4
6	ENEL ENERGIE MUNTENIA SA	246	ENEL ENERGIE MUNTENIA SA	16
7	ENEL ENERGIE SA	227	E.ON ENERGIE ROMANIA SA	14
8	MAVIR MAGYAR VILLAMOSENERGIA-IPARI ATVITELI RENDSZ	187	ENEL ENERGIE SA	14
9	CEZ VANZARE SA	151	SOCIETATEA COMPLEXUL ENERGETIC OLTENIA SA	11
10	SOCIETATEA COMPLEXUL ENERGETIC OLTENIA SA	143	CINTA ENERGY SA	11

No.	Main suppliers	Turnover 9M 2017 (RON mn)	Main suppliers	Turnover 9M 2018 (RON mn)
1	HIDROELECTRICA SA	1,170	HIDROELECTRICA SA	156
2	MAVIR MAGYAR VILLAMOSENERGIA-IPARI ATVITELI RENDSZERIRANYITO ZRT	533	ELECTROCENTRALE BUCHAREST SA	62
3	SOCIETATEA COMPLEXUL ENERGETIC OLTENIA SA	531	REGIA AUTONOMA PENTRU ACTIVITATI NUCLEARE	51
4	ELECTROCENTRALE BUCURESTI SA	463	MAVIR MAGYAR VILLAMOSENERGIA-IPARI ATVITELI RENDSZERIRANYITO ZRT	22
5	SOCIETATEA NATIONALA DE GAZE NATURALE ROMGAZ SA	344	SOCIETATEA COMPLEXUL ENERGETIC OLTENIA SA	21
6	COMPLEXUL ENERGETIC HUNEDOARA SA	300	SOCIETATEA NATIONALA DE GAZE NATURALE ROMGAZ SA	13
7	OPERATORUL PIETEI DE ENERGIE ELECTRICA SI DE GAZE NATURALE OPCOM SA	259	OPERATORUL PIETEI DE ENERGIE ELECTRICA SI DE GAZE NATURALE OPCOM SA	12
8	VEOLIA ENERGIE PRAHOVA SRL (former Dalkia)	87	COMPLEXUL ENERGETIC HUNEDOARA SA	11
9	ENERGOBIT SA	72	NPG TRANSELECTRICA SA	9
10	ELECTROCENTRALE GALATI SA	71	CIGA ENERGY SA	7

Annex 7 – Glossary

„ANRE”	National Regulatory Authority in the Electricity Domain
„BAR” / RAB	Regulated asset base
„BVB”	Bucharest Stock Exchange, operator of the regulated market where the shares are transacted
„CEE” / EEC	European Economic Community
„Company”, „NPG”, „TEL”, „CNTEE”	National Power Grid Company Transelectrica SA
„CPT”, „OTC”	Own Technological Consumption (losses)
„CS”	Supervisory Board
„DEN”	National Power Dispatcher
„EBIT”	Operational profit before interest, income tax and
„EBITDA”	Operational profit before interest, income tax and amortisement
„EBT”	Operational profit before income tax
„ENTSO(E”	European Network of Transmission and System Operators for Electricity
„HG” / GD	Governmental decision
„IFRS”	International Financial Reporting Standards
„JPY”	Japanese Yen, official currency of Japan
„LEA” / OHL	Overhead lines
„Leu” or „Lei” or „RON”	Romania’s official currency
„MFP”	Ministry of Public Finance
„MO”	Romania’s Official Gazette
„OG”	Governmental ordinance
„OPCOM”	Operator of the Electricity Market from Romania OPCOM SA
„OUG”	Governmental emergency ordinance
„PZU” / DAM	Day-Ahead Market
„RET”	Electricity Transmission Grid, electric network of national strategic interest with nominal line voltage above 110 kV
„SEN”	National Power System
„SMART”	Trading Company for Maintenance Services to the Electricity Transmission Grid, SMART SA
„SSF”	Functional system services
„SST”	Technological system services
„TEL”	Stock exchange indicator of Transelectrica
„TSR”	Total shareholders’ return
„UE” / EU	European Union
„u.m.” / m.u	Measuring unit
„USD” or “US dollars”	American Dollar, official currency of the United States of America
„WACC”	Weighted average cost of capital