

Supervisory Board – Audit Committee

No. _____ / __.03.2020

To the: Shareholders' General Assembly

Report of the Audit Committee

from the Supervisory Board of CNTEE Transelectrica SA (TEL) for 2019 with respect to the internal control systems and managing significant risks of the Company

The Supervisory Board (CS) has the essential role to permanently control the manner in which the Directorate manages the Company, and the role to verify the activities performed in the name and on behalf of the Company. Therefore the CS is entitled and has the duty to establish the control and verification modes which it considers necessary in view of performing its supervisory and reporting actions with respect to the activities developed by shareholders during reunions of the Shareholders' general assembly (AGA).

The Audit Committee of the Supervisory Board (CS) of CNTEE Transelectrica SA, constituted according to the Articles of Association of CNTEE Transelectrica SA, has developed activities in accordance with applicable legal provisions.

Until 30.11.2019 the structure of the Audit Committee was as follows: Adrian MITROI – chairman, members: Mircea Gheorghe Dumitru COSEA, Virginia Mihaela TOADER, Petru TARNICERU and Ionica BADILA.

In 02-31.12.2019 the structure of the Audit Committee was the following: Jean-Valentin COMANESCU – chairman, Adrian GOICEA – member, and Luiza POPESCU – member.

Audit Committee members are nominated from among the CS members (who in their turn are appointed by AGA). Its current membership is the following: Jean - Valentin COMANESCU – chairman, Adrian GOICEA - member, Luiza POPESCU - member, and Mihaela CONSTANTINOVICI – member.

Throughout 2019 the Audit Committee, having gathered for 4 plenary meetings, analysed the financial and managerial reporting, the financial plan and the elaboration of the annual stand-alone and consolidated financial statements, namely the data and information included in the following documents were analysed and verified:

- Stand-alone preliminary financial statements on the date and for the financial year ended in December 2018 (non-audited); 0
- Stand-alone financial statements for the financial year ended on 31 December 2018 elaborated according to MFP Order 2844/2016;
- Consolidated financial statements for the financial year ended on 31 December 2018 elaborated according to MFP Order 2844/2016;
- The Directorate's Annual report about 2018 Company activities carried on, elaborated in accordance with the provisions of article 63 from Law 24/ 2017 on the issuers of financial instruments and market operations and of

Regulation 5/2018 on financial instruments issuers and market operations of the Financial Supervisory Authority;

- Annual report regarding the consolidated financial statements of Transelectrica in 2018;
- Stand-alone interim simplified financial statements on the date and for the three months' period ended on 31 March 2019;
- Stand-alone simplified financial statements of CNTEE Transelectrica SA on the date and for the 6 months' period ended on 30 June 2019;
- Report of semester I 2019 on the economic-financial activity of CNTEE Transelectrica SA (elaborated according to the capital market requirements);
- Annual investment programme of CNTEE Transelectrica SA for 2019 and the investment expenses in 2020-2021;
- Stand-alone financial statements on 30 September 2019;
- The Company's 2019 Revenue and Expense Budget, and the estimations for 2020 and 2021;

During these meetings Audit Committee members of the CS have acknowledged the following documents:

- The Directorate's Activity report pertaining to quarter IV 2018;
- Report of Q IV and of January – December 2018, elaborated as per the capital market requirements;
- Estimated economic situation in the first two months of 2019;
- The independent auditor's Report for the year ended on 31 December 2018;
- Information with respect to constituting reserves related to the revenues achieved from the allocation of transmission capacity on interconnection lines from the surplus achieved from revaluation reserves non-taxable when the destination is changed;
- Distribution of net profit on 31.12.2018;
- Sustainability Report of 2018;
- Non-financial consolidated report, 2018;
- Information notice regarding the occurrence of prescription for the shareholders' right to the 2015 dividends;
- The Directorate's Activity report with respect to the quarterly results from quarter I of 2019 (elaborated according to the provisions of OUG 109/2011);
- Quarterly report with respect to the economic-financial activity of CNTEE Transelectrica SA in quarter I of 2019 (elaborated according to the capital market requirements);
- The Directorate's Activity report with respect to the quarterly results in quarter II of 2019 (elaborated according to the provisions of OUG 109/2011);
- The Directorate's Activity report with respect to the quarterly results in quarter III of 2019 (elaborated according to the provisions of OUG 109/2011);
- Report regarding the 2019 Public Internal Audit activities developed within TEL and in its subsidiaries as well;

At the same time in 2019 the Audit Committee of the Supervisory Board participated to the elaboration and finalisation of:

- The 2018 Audit Committee Report regarding the internal control system and management of significant risks within TEL, elaborated according to the provisions from the Corporate Governance Code of the Bucharest Stock Exchange (material of AGOA at its reunion on 24.04.2019);
- Report of semester II 2019 of the CS about administration activities, elaborated according to OUG 109/2011, submitted to shareholders gathered in ordinary reunion on 11.10.2019;

Throughout 2019 the Audit Committee has been informed about the 2019 Action Plan of (internal) audit and was communicated all the Audit reports elaborated in 2019.

Further to what has been provided above, we submit to shareholders brief information about the internal control system and management of significant risks within the Company, detailed as follows:

1. Report regarding the 2019 activities developed by the Public Internal Audit (API) structure within CNTEE Transelectrica SA and in its subsidiaries

Public internal audit activities of the API structure from CNTEE Transelectrica SA were developed in 2019 in compliance with the minimum reporting requirements asked by UCAAPI (Central Harmonisation Unit for Public Internal Audit) under the standard format of the Annual report pertaining to 2019.

1.1. Regulations governing API activities

- ✚ Law 672/2002 regarding public internal audit, with later additions;
- ✚ General norms regarding the exercise of public internal audit activities (HG 1086/2013);
- ✚ Methodological norms 23203/08.07.2014 regarding the exercise of public internal audit within CNTEE Transelectrica SA;
- ✚ The Company's internal operational Procedure on Public Intern Audit;
- ✚ The Charter of public internal audit within CNTEE Transelectrica;

1.2. Planning the public internal audit activities

The annual plan was established according to the approved „Multiannual plan of public internal audit in CNTEE Transelectrica SA” and to the risk analysis, taking into account certain priorities occurring after previous audit missions, or the requests from Directorate members.

The plan of public internal audit missions in 2019, approved by the Directorate, included 28 missions, of which:

- ✚ 27 insurance missions (22 in transmission branches and five in the Company's Executive group);
- ✚ One assessment mission (at subsidiary Company SMART SA).

1.3. Functioning of the Public Internal Audit

- ❖ At CNTEE TRANSELECTRICA SA level the established public internal audit structure is functional as well.
- ❖ In the five subsidiaries that established public internal audit, the function of the public internal audit has the following characteristics:
 - In four entities where the public internal audit functions:
 - In three entities (SMART, FORMENERG, and TELETRANS) it is by their own structure;
 - In one entity (ICEMENERG SERVICE) - by means of the superior body;
 - In one entity (OPCOM) public internal audit does not function, although it has been established by own structure. The reason why the established internal audit structure does not function is the following: beginning with 26.06.2019 the position allocated to the internal audit structure is vacant. There is a solution envisaged by CNTEE TRANSELECTRICA SA to settle such situation: until the vacant seat is filled, the internal audit will be provided by the superior body.

1.4. Reporting the public internal audit activities

From among the five subsidiaries (subordinated entities) of CNTEE Transelectrica SA, four (SMART, OPCOM, FORMENERG and TELETRANS) have established public internal audit by their own structure upon agreement from CNTEE Transelectrica SA. Subsidiary ICEMENERG SERVICE SA has public internal audit through the hierarchically superior body.

The public internal audit functions by own structure in three of the four subsidiaries that established public internal audit by own structure. Thus the three subordinated entities are obliged to issue and communicate to CNTEE Transelectrica SA the Annual activity report regarding public internal audit functions. From these, the Annual activity report was issued by three subordinated public entities (subsidiaries), and the information they provided is found in the contents of this report.

1.5. Independence of the public internal audit structure

Independence is the attribute of public internal audit functions while objectivity is the prerogative of public internal auditors. Therefore the observed criteria are as follows:

- ✓ To maintain the independence of the public internal audit structure:
 - The public internal audit function should report directly to the organisation's top management;
 - The appointment and recalling of management for the public internal audit function and public internal auditors should be subject to endorsement according to legal terms;
- ✓ To maintain the objectivity of public internal auditors:
 - Public internal auditors should not be involved in activities they might subsequently audit;
 - Public internal auditors should declare their independence upon the public internal audit and assessment missions performed;

These aspects are found according to current legal norms, namely Law 672/2002 regarding public internal audit, republished with later amendments and additions and HG 1086/2013 approving the General norms regarding the exercise of public internal audit activities. Likewise, similar aspects are found in the international internal audit practice stipulated in the International Professional Practice Standards on internal Audit (IPPF) issued by the Internal Institute of Auditors (see Standards from 1100 to 1130).

1.6. Objectivity of internal auditors

❖ In CNTEE Transelectrica SA

In 2019 the Public Internal Audit structure was not involved in exercising auditable activities.

At the same time in 2019 all internal auditors filled in the *Declaration of independence* for each public internal audit mission they participated to. No problems have been ascertained after filling in these declarations.

❖ In the subsidiaries of CNTEE Transelectrica SA

The following information resulted from the annual activity reports issued by three functional public internal audit structures:

- ✓ With respect to the public internal auditors' involvement in the exercise of auditable activities: in 2019 in all three entities internal auditors have not been involved in exercising auditable activities;
- ✓ With respect to filling in the declaration of independence: in all three entities internal auditors have filled in the declarations of independence in 2019;

1.7. Providing the methodological and procedural framework

The methodological and procedural framework of public internal audit activities refers to aspects likely to provide good development of such activities in the light of applicable methodologies and procedures, taking into account as well the application and observance of the public internal auditor's ethical conduct code.

As far as such aspects are concerned, the public internal audit activity was regulated beginning with 2003, besides the known primary legislation, by OMFP 38/2003 as well approving the General norms regarding the exercise of public internal audit activities.

In 2013, after amending and republishing the Law on public internal audit, HG 1086/2013 was issued approving the General norms on the exercise of public internal audit activities. It provided several amendments and improvements in the old version of the general norms. Both general norm versions provided issuance of one's own public internal audit norms.

With reference to setting procedures for activities of the public internal audit structure, they are also subject to issuing system or operational procedures, as appropriate. The concept of procedure is used in this report with the meaning provided in OSGG 600/2018 approving the Code of internal managerial control in public entities.

Taking into account this, public internal audit structures should analyse and decide how many of the performed activities have to be under procedure (which means issuing written procedure for such activity). In this context the degree of procedure issuance can vary from one entity to another, depending on the professional judgement applied. Similarly, in case of activities that can have procedures one will establish what is the issuance degree of procedures. Naturally the target is 100%, and this score is followed for as close a proximity as possible.

1.8. Issuance of one's own written norms and procedures specific to public internal audit activities

❖ In CNTEE Transelectrica SA:

- ✓ One's own norms have been elaborated and endorsed by the hierarchically superior body (OIS) – by endorsement 20194/16.06.2014;
- ✓ Internal procedure code TEL-15.02, which is updated whenever necessary. All the stages covered during development of internal audit missions, from their planning to the supervision and reporting of the implementation stage of recommendations, are provided in the contents of this procedure.

One (1) written procedure was issued for one (1) identified activity which can be put under procedure, which represents a 100% degree of procedure issuance.

❖ In the subsidiaries of CNTEE Transelectrica SA

- ✓ In all four subordinated units (subsidiaries) that established the public internal audit function by own structure the utilisation of own norms is the following: all four entities got the agreement of CNTEE Transelectrica SA to issue their own norms, however one is non-functional.
- ✓ In the four entities that got the agreement of CNTEE Transelectrica SA to issue their own norms, the situation of such norms being issued is the following: all four entities have executed their own norms which were endorsed by CNTEE Transelectrica SA, however one is non-functional.

In the public internal audit structures within the subsidiaries of CNTEE Transelectrica SA nine activities have been identified in total (seven in subsidiary FORMENERG and one activity in each of the two other subsidiaries that issued annual activity reports). From among these it was established nine activities can have procedures, which represents 100%. The activities established as procedural are as follows:

- ✓ The public internal audit activity (in subsidiaries SMART and TELETRANS)
- ✓ In FORMENERG seven activities have been identified, which actually are sub-activities of public internal audit activities, namely: elaborating the multiannual public internal audit plan; elaborating the annual public internal audit plan; performing the insurance public internal audit mission – regularity / compliance; carrying on the counselling public internal audit mission; developing the ad-hoc public internal audit mission; internal auditor's professional training; executing the Annual public internal audit activity report.

Nine written procedures have been issued for the nine activities that could be put under procedure, which represents 100% degree of procedure issuance.

1.9. Providing and improving the quality of public internal audit activities

1.9.1. Elaborating and updating the Quality Insurance and Improvement Programme (PAIC)

In accordance with the provisions of item 2.3.7 from annex 1 to HG 1086/2013, the public internal audit structure elaborates a Quality insurance and improvement programme (PAIC) in all aspects of public internal audit, which should enable uninterrupted control of its effectiveness.

The Quality insurance and improvement programme for public internal audit activities should guarantee such public internal audit activities are developed in accordance with the norms, instructions and the Code on the public internal auditor's ethical conduct and that they contribute to improving the activities of the public internal audit structure.

PAIC should assist expressing conclusions with respect to the quality of public internal audit activities that lead to making recommendations in order to implement proper improvements of this activity, which should enable assessment of:

- ✓ Compliance with the applicable legal base;
- ✓ Contribution of the public internal audit to the governance, risk management and organisational control processes;
- ✓ Full coverage of the auditable domain;
- ✓ Observance of the laws, regulations and procedures which the public internal audit activity should observe;
- ✓ Risks influencing the function of the public internal audit;

PAIC should impose a systematic disciplinary approach of periodical self-assessment, including a method to make periodical self-evaluation for each intermediary year in-between external appraisals.

A fully functional PAIC exercises permanent monitoring of public internal audit activities and periodical self-evaluation thereof in order to provide compliance with the applicable legal and procedural framework. By means of such process external assessment should actually become an opportunity to obtain new ideas from the evaluator or from the evaluation team with respect to improvement modes for the general quality, efficiency and effectiveness of public internal audits.

❖ In CNTEE Transelectrica SA

The public internal audit structure has issued the PAIC. The issued PAIC is periodically updated. The last document update was performed on 11.01.2018.

❖ In the subsidiaries of CNTEE Transelectrica SA

From the annual activity reports issued by three functional public internal audit structures the following information was obtained: all three subsidiaries have elaborated and updated their PAIC.

1.9.2. External evaluation

Complementary to the PAIC, the quality of the public internal audit function can be improved by means of external evaluations. They should be carried out every five years according to the requirements of national legislation, but also conform to the international internal audit standards issued by the Internal Institute of Auditors (IIA). The objective of external evaluation is to assess public internal audit activities in terms of their conformity with the internal audit definition, with the requirements of the ethical conduct code and the provisions of national legislation in this domain.

External evaluations can also focus on identifying opportunities to improve the public internal audit function, providing suggestions to improve the effectiveness of such activities and promoting ideas to enhance the image and credibility of the public internal audit function.

❖ In CNTEE Transelectrica SA

In 2019 the Public Intern Audit structure has not been evaluated by Romania's Court of Audit, the hierarchically superior body (OIS) or by other entities. The Public Internal Audit within CNTEE Transelectrica has not been evaluated by any of the fore-mentioned structures in the last four years before the reporting one.

❖ In the subsidiaries of CNTEE Transelectrica SA

In the subordinated entities, from among the annual activity reports issued by three functional public internal audit structures it followed that in 2019:

- One entity (SMART) has been evaluated by the hierarchically superior body;
- Two entities have not been evaluated;

The situation of external evaluations within subordinated entities in the last four years is the following: all three entities have been evaluated by the hierarchically superior body, the Court of Audit or other entities. As regards the five years' evaluation of public internal audit activities, zero functional internal audit structures were not evaluated in the last five years.

1.10. Public internal audit activities performed in the reported year

As far as the public internal audit function is concerned, planning is done for multiannual intervals, actually for three years, but also annually. Resources are calculated and distributed only for the shorter time horizon (a year).

❖ In CNTEE Transelectrica SA

The multiannual public internal audit plan was elaborated and approved for 2017 – 2021, registered in the Company under no. 1976/017.01.2017. In accordance with the provisions of Law 672/2002 republished, with later amendments and additions, public internal audit is exercised over all activities developed in an entity, including the activities of subordinated entities. Consequently the internal auditors within API should exercise their public internal audit activity over the organisational structures of the Company's Executive structure, the eight branches and the subsidiaries where there is no internal audit structure. Audit in subsidiaries FORMENERG, OPCOM, SMART and TELETRANS is performed through their own structures, following which the API personnel of CNTEE Transelectrica SA should evaluate them.

Taking into account the very great number and diversity of activities developed in the Company, compared to the human resources employed by the API structure and the annual calendar available for public internal audit missions, as well as the need to carry out evaluation missions in the subsidiaries, the multiannual plan was elaborated for five years. The plan is reviewed whenever necessary in order to make certain it further contains relevant updated information.

With a view to break-down audited activities by years the hierarchy of organisational entities was obtained depending on their importance and contribution to achieving the main objectives of CNTEE Transelectrica SA. Activities were identified and classified hierarchically within each structure according to their detailed organisation and functioning regulations, also considering the interviews with the managerial boards of these entities. Such hierarchical classification took also into account the risk analysis and assessment as associated to each activity. Activities were broken-down by years in accordance with International Audit Standards and the good practice established in this domain, taking as much as possible into account a balanced distribution. Thus, every year high risk activities will be audited predominantly, as well as those with average and low risks associated to them.

The risk analysis criteria used for annual and multiannual planning are as follows:

- Likelihood of risk occurrence;
- Seriousness of event consequences (impact level);

In 2019 a series of **27 insurance missions** was carried on. Taking into account several domains can be dwelt with during an insurance mission, it was thus ascertained:

- The budgetary domain has not been addressed by any insurance mission;
- 12 insurance missions approached the financial-accounting domain;
- Public procurements were included in one insurance mission;
- Human resources were addressed by one insurance mission;
- IT was not approached by any insurance mission;
- The juridical domain was not approached by any insurance mission;
- Community funds were not included in any insurance mission;
- 12 insurance missions focussed on the entity specific functions;
- SCM/SCIM activities were not addressed by any insurance mission;
- One insurance mission approached other domains;

During the public internal audit missions developed in 2019 **no irregularities** have been ascertained.

Un-adopted recommendations represent those included in the final public internal audit report, but which the public entity's leader did not endorse as per the provisions of item 6.6.6 of HG 1086/2013, expressly mentioning it. According to applicable legislation such recommendations should be notified to UCAAPI, together with the consequences of non-implementation.

During the public internal audit missions developed in 2019 **no un-adopted recommendations** have been ascertained.

As regards **supervising the implementation of recommendations**, it refers to the recommendations the public internal audit structure made in the previous insurance missions and is obliged to watch the implementation thereof.

In this context **in 2019** a number of 162 recommendations were supervised, with the following results:

- 107 implemented recommendations, of which:
 - 97 recommendations implemented within the established term;
 - Ten recommendations implemented after the established term;
- 19 partially implemented recommendations (under implementation), of which:
 - 18 recommendations whose set implementation term was not exceeded;
 - One recommendation with exceeded implementation term;
- 36 non-implemented recommendations, of which:
 - 35 recommendations whose established implementation term was not exceeded;
 - One recommendation with exceeded implementation term;

Domain	Number of implemented recommendations		Number of partially implemented recommendations		Number of non-implemented recommendations	
	During the established term	After the established term	Whose established term was not exceeded	With established term exceeded	Whose established term was not exceeded	With established term exceeded
Budgetary	2	0	0	0	0	0
Financial-accounting	38	2	5	1	15	0
Public procurement	6	0	1	0	2	0
Human resources	0	3	1	0	14	0
Information technology	0	0	0	0	1	1
Juridical	0	0	0	0	0	0
Community funds	0	0	0	0	0	0
Entity-specific functions	48	5	8	0	1	0
SCM/SCIM	2	0	2	0	0	0
Other domains	1	0	1	0	2	0
TOTAL 1	97	10	18	1	35	1
TOTAL 2	107		19		36	

In 2019 no formalised counselling missions were conducted within CNTEE Transelectrica SA. Nevertheless, the Public Internal Audit structure provided counselling throughout the year to all those requesting it. Thus during the performed

missions explanations were provided with respect to various legal provisions, or applicable operational procedures. We have also promptly answered the different requests for clarifications from subsidiaries, branches or the entities of the Company's executive part.

❖ In the subsidiaries of CNTEE Transelectrica SA

In case of the three subordinated entities that issued annual report about public internal audit activities, the annual and multiannual planning provides the following particular features:

- ✓ With respect to elaborating the risk analysis criteria: three entities issued their own risk analysis criteria;
- ✓ With respect to elaborating an annual and multiannual planning operational procedure: two entities issued this operational procedure;
- ✓ With respect to elaborating the annual and multiannual plan, it was done taking into account:
 - One entity took into account the structures;
 - Two entities took into account the activities;

In 2019 a number of **11 insurance missions** were performed in the subordinated entities of CNTEE Transelectrica SA. Taking into account several domains can be dwelt with during an insurance mission, it was thus ascertained:

- The budgetary domain has not been addressed by any insurance mission;
- Three insurance missions approached the financial-accounting domain;
- Public procurements were included in one insurance mission;
- Human resources were not addressed by any insurance mission;
- IT was approached by one insurance mission;
- The juridical domain was not approached by any insurance mission;
- Community funds were not included in any insurance mission;
- Entity specific funds were addressed by one insurance mission;
- SCM/SCIM activities were not dwelt with by any insurance mission;
- Five insurance missions approached other domains.

No irregularities have been ascertained during the public internal audit missions performed in 2019 in subordinated entities.

Un-adopted recommendations represent those included in the final public internal audit report, but which the subordinated public entity's leader found under coordination or under authority did not endorse in accordance with the provisions of item 6.6.6 from HG 1086/2013. In accordance with applicable legislation, these recommendations should be notified to the main credit holder, together with the consequences of non-implementation.

During the public internal audit missions developed in 2019 **no un-adopted recommendations** have been ascertained.

As regards **supervising the implementation of recommendations**, it refers to the recommendations the public internal audit structure made in the previous insurance missions and is obliged to watch the implementation thereof.

In this context, **in 2019** a number of 103 recommendations were supervised, with the following results:

- 46 recommendations were implemented within the established term;
- 6 recommendations were partially implemented (under implementation) whose established implementation term has not been exceeded;
- 51 recommendations were not implemented however their established implementation term has not been exceeded;

Domain	Number of recommendations implemented in all subordinated entities	Number of recommendations partially implemented in all subordinated entities	Number of recommendations not implemented in all subordinated entities
--------	--	--	--

	Within the established term	After the established term	Whose established term has not been exceeded	Whose term has been exceeded	Whose established term has not been exceeded	Whose term has been exceeded
Budgetary	0	0	0	0	0	0
Financial-accounting	12	0	1	0	1	0
Public procurement	0	0	0	0	15	0
Human resources	0	0	0	0	0	0
Information technology	0	0	0	0	6	0
Juridical	13	0	0	0	6	0
Community funds	0	0	0	0	0	0
Entity-specific functions	3	0	0	0	0	0
SCM/SCIM	0	0	0	0	0	0
Other domains	18	0	5	0	23	0
TOTAL 1	46	0	6	0	51	0
TOTAL 2	46		6		51	

In 2019 no formalised counselling missions were conducted in the subsidiaries of CNTEE Transelectrica SA.

1.11. Evaluation missions of internal audit activities

❖ In CNTEE Transelectrica SA

In 2019 one evaluation mission was carried out in subsidiary SMART SA according to the Plan of public internal audit missions for 2019.

❖ In the subsidiaries of CNTEE Transelectrica SA – *Not applicable*

1.12. Conclusions

❖ In CNTEE Transelectrica SA

The public internal audit by means of the conducted activities adds value both by assessing the internal control system and by analysis of risks associated to auditable activities, as well as by the recommendations included in the elaborated report transmitted in view of reaching the Company's objectives. Such recommendations have determined the audited structures to improve their activities and the internal control system, so that significant progress could be noticed from one audit to another.

Monitoring activities are oriented towards plus value created by the public internal audit while supporting the achievement of Company objectives. Taking into account the involvement of personnel from audited structures and of their leaders' in the implementation of issued recommendations one can state the public internal audit has sustained the personnel by reviewing the mode of operation and applying legal provisions, a better organisation of activities and permanent collaboration in view of turning works efficient.

The implementation of recommendations provided during all public internal audit missions developed throughout 2019 targeted and led to:

- ✓ More efficient knowledge and application of legislation, procedures and instructions of audited activities;
- ✓ Detecting and correcting deficiencies punishable by external control bodies;
- ✓ Eliminating the negative aspects from audited activities in order to mitigate risk occurrence conditions;
- ✓ A greater attention paid to applicable regulations regarding elaboration, endorsement and approval of the Annual sectorial procurement programme, as well as the preparation and application of awarding procedures, including direct procurements;

- ✓ A greater attention paid to the application of internal regulations regarding the foundation of the Company-wide investment programme and draft budget for investments, supervising its execution as well as the development and settlement of investment contracts;
- ✓ Improving the mode of operation with respect to exercising preventive financial control in all the Company;
- ✓ A greater attention paid to the application of valid regulations regarding personnel recruitment and selection, as well as checking up job descriptions of hired employees;
- ✓ Improving the mode of operation with respect to inventories registration in accounting books, and to establishing the inventory value of stocks and constituting impairment allowances;
- ✓ Executing periodical reports about the stage of investment projects in accounting terms according to the clauses of respective contracts, which will be notified to the Company's Directorate and to the organisational entities carrying out such contracts;
- ✓ Better assessment of activities performed by persons exercising preventive financial control within the Company's Executive part;
- ✓ A greater attention paid to the provision of conditions to carry out maintenance operations, and to their supervision and acceptance;
- ✓ Improving the mode of operation as regards the coordination of interventions, manoeuvres (planned, current, preventive and removing network failures and disturbances) and incident analysis, as well as the remote control of refurbished substations and their efficient operation;
- ✓ Enhancing communication between Company entities;
- ✓ Improving the internal control system of audited entities and activities;

❖ In the subsidiaries of CNTEE Transelectrica SA

The missions performed by the internal audit structures from the subsidiaries of CNTEE Transelectrica aimed at formulating recommendations to remove malfunctions and improve the activities of audited structures, so as to increase their efficiency and effectiveness, which will finally contribute to achieving the company's objectives.

The management's greater awareness with respect to the need to consolidate internal audit was shown by the objectionless approval of the reports from internal audit missions performed in 2019.

Audit missions carried out in 2019, completed by audit reports, have provided greater control over the operations performed in the public entity. They have also constituted a guidebook to improve the quality of such operations, assisting the audited structures to reach their objectives by systematic evaluation and approach as well as by risk methods.

Throughout 2019 the Audit Committee was informed about the 2019 Action Plan of internal audit and was communicated all the Audit reports elaborated in 2019.

1.13. Proposals to improve the public internal audit activities

❖ In CNTEE Transelectrica SA

A proposal consists in continued consolidation of the internal auditor function in CNTEE Transelectrica SA with a view to improve transparency, efficient utilisation of funds and of public inventories.

- ✓ Organising meetings or periodical discussions of internal auditors with the Company's management, so as to operatively clarify certain problems occurred and the top management's expectations with respect to public internal audit activities;
- ✓ Providing salary to internal auditors in accordance with the hierarchy of this function within the company's remuneration system;
- ✓ Exchanges of experience with the other public internal audit structures of the energy sector and with international organisations or auditors from European Union countries;
- ✓ Providing continuous, uniform training at qualitative standards as necessary to obtain national certification of internal auditors;

- ✓ Permanent cooperation in methodological and guiding terms between the public internal audit structure of the hierarchically superior level (Secretariat General of the Government) and from API CNTEE Transelectrica SA.
- ❖ **Proposals to improve the public internal audit activities performed in the subsidiaries of CNTEE Transelectrica SA**
 - **TELETRANS**
 - Maintaining proper professional training for internal auditors, which means participating to professional courses delivered by specialist trainers in this domain;
 - Improving the internal audit activity targets the contents of the procedural framework and the development of permanent professional collaboration, in methodological and guidance terms, between the internal auditors of Co. TELETRANS SA and the auditors from the API structure of CNTEE Transelectrica SA.
 - **SMART**
 - The improvement of internal audit will rely on improved activities by means of complex programmes of professional training in concrete domains of economic activities and organisational forms, as well as by close collaboration with the Internal Audit structure of CNTEE Transelectrica SA.
 - **FORMENERG**
 - Permanent awareness of all leaders from FORMENERG-SA and of all personnel to accurately understand the internal audit activities, both with respect to rules by which they are developed, and to the manner in which such function is better capitalised, so as they could perceive internal audit as aid, a competent independent support, not as a form of control;
 - Permanent communication between the auditor and the management of FORMENERG-SA with respect to the audited aspects and the difficulties or problems found, in order to detect their causes and find the most adequate feasible remedial actions as well as risk reduction;
 - To provide increased quality of audit activities and submitted reports and to render efficient the performed control they propose:
 - Permanent organisation of exchanges of experience with the colleagues of the API structure from CNTEE Transelectrica SA and the other subsidiaries;
 - Participation of the public internal auditor from FORMENERG-SA to training activities in line with HG 1086/11.12.2013 approving the General norms on the exercise of public internal audit activities; public internal audit courses whose trainers should be specialists from UCAAPI; training activities in line with SGG Order 600/2018 on the Code of internal/managerial control of public entities, with later amendments and additions; professional training courses, trainings, (qualitative) workshops on topical issues for the activities specific to the public entity.

2. Risk management in 2019

2.1. Organisational framework of risk management

In accordance with applicable legislation - SGG Order 600/2018 approving the Code of internal managerial control of public entities, in 2019 the Company's organisation and operation framework was consolidated as necessary to implement and develop the internal managerial control system. To this effect updates were made in:

- ✚ The structure, attributions and responsibilities of the Company's Risk Management Team (EMRC); within the team is constituted the Risk Management and Control Group (GMCRC); the Risk Management Team's chairman Company-wide is the Manager of the Department of Critical Infrastructures. To provide efficient risk management in all Company structures, the leaders of the Company's organisational entities (divisions, departments, transmission branches) designated each a risk responsible person who is a member in the Company-wide Risk Management Team (EMRC);

- ✚ The structure, attributions and responsibilities of the Monitoring commission meant to implement the Internal / Managerial control system, assumed by Directorate Decision;
- ✚ *Organisation and operation regulation of the Monitoring commission for the Company's internal / managerial control;*
- ✚ The structure of the Technical Secretariat of the Monitoring commission to implement the Internal /Managerial control system (CM SCIM);

The Monitoring commission for internal/managerial control coordinates the update of general and specific objectives, the procedural activities, risk management, performance monitoring system; the situation of procedures and the monitoring and reporting system, namely the information of the Company's Directorate.

Risks associated to objectives and/or activities are identified and assessed by each organisational entity of the Company (division, department, transmission branch), in accordance with the elements from the *Risk register*; significant risks are centralised by the Department of Critical Infrastructures, Risk management, in the *Risk register of the Company*.

The Monitoring commission analyses and establishes the priority of significant risks, which might impact the achievement of Company objectives, by establishing the risk profile and the risk tolerance limit, every year. The chairman of the Company's Risk Management Team and the deputy chief inspector of Risk management from the Department of Critical Infrastructures are included in the Technical secretariat of the Monitoring commission; using the *Risk register of the Company* the chairman of the Risk Management Team proposes the risk profile and the risk tolerance limit, which are examined and endorsed at the Commission meeting and approved by the Company's Directorate.

Once with the *Risk register*, the leaders of Company's organisational entities (divisions, departments, transmission branches) transmit the control measures for significant risks to the Chairman of Risk Management Team from the Company's Department of Critical Infrastructures, member in the Technical Secretariat of the Monitoring commission, that annually elaborates the *Implementation plan of control measures for significant risks Company-wide*; the *plan* is analysed by the Monitoring commission and approved by the Company's Directorate.

The Technical Secretariat of the Monitoring commission transmits the approved Plan of measures to the compartments responsible to manage significant risks in view of implementing it.

The Chairman of the Company's Risk Management Team within the Department of Critical Infrastructures, member in the Technical Secretariat of the Monitoring commission, elaborates, based on *annual reports* from the leaders of the Company's organisational entities (divisions, departments, transmission branches) regarding the development of risk management and performance monitoring operations within the organisational entity endorsed by the Monitoring commission's Chairman, an *Information* to the Company's Directorate with respect to Company-wide risk management and performance monitoring activities.

Within CNTEE Transelectrica SA risks that might have substantial impact on the achievement / realisation of Company objectives are managed in accordance with activity specific operational procedures and in accordance with the *operational procedure TEL 10.00 Risk Management*; *Internal operational procedure 'Risk Management'* aims at implementing a risk management process which should facilitate achieving Company objectives under economic, efficient and effective conditions. At the same time continuous improvement is provided for the development of risk management stages, namely identification, assessment, establishment of management strategy, monitoring the implementation of control measures and periodical reporting as follows:

- ✓ Identifying risks in close connection with activities associated to specific objectives, whose achievement might be influenced by risk occurrence; detecting the threats / vulnerabilities existent in current activities, which might lead to unachieved objectives;
- ✓ Risk assessment by estimating the occurrence likelihood, the impact over activities associated to objectives achievement in case it occurs; risk hierarchy and priority depending on risk tolerance;
- ✓ Establishing the risk management strategy (risk response) by identifying the best risk treatment methods, including also control measures; risk analysis and management depending on the risk tolerance limit approved;
- ✓ Monitoring the application of control measures and reviewing them according to the effectiveness of their results;

- ✓ Periodical reporting on risks is submitted whenever necessary or at least once a year, and in case risks persist, depending on the occurrence of new risks, the efficiency of approved control measures, revaluation of existent risks etc.;

The procedure provides the personnel of CNTEE Transelectrica SA with a working instrument that facilitates risk management in methodical efficient manner with a view to achieve Company objectives. To this effect according to the procedure every year a risk management documentation is elaborated for those risks that might influence the activity of CNTEE Transelectrica SA, which also contains a description of the manner in which control measures are established, implemented and monitored meant to limit the possible threats and consequences produced in case of risk occurrence. The procedure provides for each organisational entity the obligation to systematically analyse, at least once a year, the risks pertaining to the performance of its activities and to elaborate proper plans in view of limiting the possible risk effects; the management of each organisational entity nominates a risk responsible person who sees to the annual elaboration of documentations for the Risk register, Plan of measures, Annual report, and fills in the risk supervision forms every time he/she considers necessary and executes the risk alert forms whenever a new risk occurs.

In 2019 the main documents regarding risk management elaborated in the Company to facilitate achieving Company objectives under economic, efficient and effective conditions and complying with legal requirements have been:

- ✓ *2019 Risk register for significant risks identified in CNTEE Transelectrica SA;*
- ✓ *Action Plan regarding risk management activities from January 2019 to January 2020;*
- ✓ *INFORMATION regarding the development of risk management and performance monitoring processes in CNTEE Transelectrica SA in 2018, endorsed by the Chairman of the Monitoring commission, and approved by the Directorate;*
- ✓ *Table C12 CM - 2019 Risk register, SIGNIFICANT RISKS: IMPORTANT and CRITICAL COMPANY-wide – PRIORITISATION;*
- ✓ *2019 Implementation plan of control measures, for significant risks Company-wide;*

In accordance with the *Organisation and Function Regulation of the Monitoring commission for internal managerial control* and the provisions from *Procedure TEL 10.00 Risk management*, the Chairman of the Company's Risk Management Team initiated the elaboration of annual reporting Company-wide by letter 41383 / 04.10.2019, requesting from the management of organisational entities the elaborated and approved documentations for such entity (division, department, transmission branch).

According to the elaborated and approved documentations in the organisational entity (division, department, and transmission branch) the Department of Critical Infrastructures, Risk Management has executed the documents for the Company:

- ✓ *2020 Risk register, CNTEE Transelectrica SA for the Company's significant risks, the 2020 Implementation plan of control measures for the Company's significant risks,*

which, together with the *Report on the elaboration of the Risk register of CNTEE Transelectrica SA, 2020* and the *2020 Implementation plan of control measures for Company-wide significant risks*, were approved by the Directorate.

2.2. Analysis of risks associated to activities in 2019

During the Company's Risk register update the risk exposure was ascertained to be maintained at the level of last year, and residual risks also have kept at similar level in comparison with the previous assessment.

Risks identified during precedent years are properly kept under control; however the risk exposures of investments and procurements maintain high.

New risks identified in 2019 within organisational entities:

The responsible person for personal data protection in the Company has identified specific data security risks in terms of Personal Data Protection, in accordance with applicable standards, possible risks which might alter the integrity, security or confidentiality of personal information. The actions targeted to identify risks specific to data security in terms of Personal Data Protection will be implemented when reviewing the operational procedure TEL 10.00 Risk management.

From among the risks that occurred in 2019 mention can be made of:

- ✚ Investment risk: the difficult financial circumstances subsidiary SMART is faced with was included in many information materials for the Directorate of Transelectrica. In UEFA / DBRM they monitor the financial activity of subsidiaries and each quarter deliver an Activity report of subsidiaries;
- ✚ Risk of not collecting the amounts of money as a result of enforcing the securities that guaranteed the down payments received by contractors under investment projects;
- ✚ A burdened procurement process, which leads to incomplete achievement of the RET Maintenance Plan;
- ✚ A burdened procurement process, which leads to lower quantitative or qualitative activities under the Annual investment programme;

Significant risks that occurred in transmission branches: failure / defect / unavailability of 220 kV & 400 kV OHL-s, of primary equipment within transformer substations, transformer units and/or shunt reactors, protection and automation systems, command control - monitoring (SCC) systems, direct current and alternating current auxiliary services, fire prevention and fighting installations, communication / telecommunication, personnel's health and security, environmental spills / discharges of dangerous substances (smoke, SF6, oil, fuels etc.) are synthesised in Annex 4.

The main risks identified in CNTEE Transelectrica SA:

- ✚ Technical and operational risks:
 - Deficiencies when scheduling SEN operation and congestion management;
 - Breakdowns of telecommunication services for SEN operation;
 - Failures to installations and equipment;
 - Malfunctions in the Balancing market operation;
 - Non-execution or delays in achieving the Annual investment programme;
 - Malfunctions of the systems and platforms used by the operative management, communications and telecommunications;
 - Unavailability of collection, memorising and accessing the data from electricity quality metering;
 - Incompliance with legal requirements regarding dismantle;
 - The annual Investments / Maintenance / Procurement programmes are achieved below the scheduled qualitative and quantitative levels;
 - Delays in procuring services necessary to provide the security and intervention stocks of Transelectrica SA;
 - Improper connection of users to electricity networks of public interest;
 - Incompliance with regulated or contractual terms, especially determined by difficulties to obtain ownership rights over lands;
 - Incomplete achievement of the Annual Procurement Programme and disturbed procurement procedures, of major impact over investment activities;
 - Risks related to Energy markets: counterpart risk, non-collection of receivables, forecast risk;
- ✚ Financial risks
 - Interest risk,
 - Foreign currency,
 - Provisions from financing agreements,
 - Liquidity risk,
 - Credit risk,
 - Deterioration of the Company's credit rating,
 - Price risk, because of the energy market's unpredictability, which might lead to cost rises associated to CPT;
- ✚ Strategic risks
 - Tariff (price) risk associated to the regulatory framework,

- Volume risk,
- Risk of network codes implementation,
- Legal risks - licences, contractual risks, including fees from authorities or compensating payments;

Security risks

- Breaches in the security and protection of ICN/ICE critical infrastructures and in the activity continuity in emergency circumstances,
- The security of classified information is not insured,
- There is no security or protection for cyber infrastructures;

Personnel and environmental risks

- Difficulties / deficiencies of recruitment, professional training and personnel motivation,
- Non- or incomplete achievement of the Annual professional training programme,
- Improper personnel recruitment,
- Impact over the personnel's health and security,
- Environmental pollution, improper waste management,
- Human errors - caused by manual operation, repeatability of operations; to limit the effects of such human risks additional verifications are proposed and insurance concluded in order to externalise risk;

2.3. Resulting risk profile and proposal to prioritise risks and tolerance limits

In the organisational entity (division, department, transmission branch) the exposure was assessed for each risk, both in terms of INHERENT risk (exposure to the risk relating to objectives achievement, in the absence of any action that might be taken to reduce its probability and/or impact), and of RESIDUAL risk (exposure to the risk relating to objectives achievement, which remains after establishing and implementing risk treatment measures), assessment included in the organisational entity's Risk register.

- In the Executive part 125 risks were synthesised after being identified, with the values of inherent and residual exposures:
 - Inherent risks: 59 low and 66 significant, and of the significant ones 39 are average and 27 high.
 - Residual risks: 83 low and 42 significant, of which 37 average and 5 high.
- In the transmission branches 15 risks were identified with similar inherent and residual values:
 - Inherent risks: 5 low (4 in TB Constanta and TB Timisoara) and 10 significant, namely 11, of which one high risk in both TB Constanta and TB Timisoara.
 - Residual risks: 14 or 15 low, 1 significant (average), namely zero.

TB Constanta and TB Timisoara have assessed the risk of "Achievement of the Annual investment programme below the scheduled quantitative or qualitative levels (R5/12)" as providing HIGH exposure as inherent risk, and control measures were applied in the sense of diminishing its occurrence likelihood, thus becoming MEDIUM as residual risk.

2.4. Keeping risks under control; actions

Actions established in order to keep risks under control in 2019 were included in the document *Implementation plan of control measures for significant risks*, elaborated in organisational entities. In accordance with such documents the *Implementation plan of control measures* 55228/09.01.2019 was elaborated for the Company and the status of its application is supervised with guidance and control activities by the Risk Management and Control Group.

The actions applied in order to keep risks under control in 2019 mainly diminished their occurrence probability and the risk impact compared to inherent risk levels.

The risks that did occur have been treated in accordance with the adopted strategy, required by the circumstances that facilitated such risk occurrence.

The risk management strategy, meaning: risk acceptance, risk monitoring, risk treatment to eliminate / diminish it to an acceptable level by measures, risk externalisation by means of: insurance, externalising the activity, other contracts with third parties, was established by each organisational entity (division, department, transmission branch) by detecting the most adequate feasible risk treatment actions and in accordance with its management responsibilities so as to register as low risk exposure values as possible in the given internal and external context.

Preponderantly strategies consisted in:

- ✓ Risk treatment for its elimination / diminishing to an acceptable level by means of measures and
- ✓ Risk monitoring;

From among the internal control instruments use mention can be made of:

- ✓ Measures and the procurement / maintenance / investment / personnel professional training programmes;
- ✓ Elaborating procedures or reviewing them;
- ✓ Changes in the processual and structural organisation;
- ✓ Performance indicator attached to the objective;
- ✓ Redistributing the personnel;
- ✓ Constituting or updating databases;

In case some risks occur control measures have been identified as well as verifications for similar situations in order to prevent risk occurrences or possible new ones.

Control measures in organisational entities (division, department, transmission branch) have been fully implemented or under implementation.

For 2020 the actions established to keep risks under control are included in the document *2020 Implementation plan of control measures for Company-wide significant risks*, approved by the Directorate. It specified for every risk: causes, inherent risk estimation (probability and impact), preventive control measures, with dates and responsible people, consequences, control measures to limit consequences, with dates and responsible people, residual risk estimation (probability and impact), entities that manage the risk.

In 2019 risk management activities were carried out in proper manner in all the Company, fully observing in due time the legal requirements and internal regulations. However in case of major risks pertaining to delays in achieving the *Annual sectoral procurement programme* radical measures have to be identified and applied as well as making use of all legal levers that can increase the achievement degree of such programmes.

The documentations submitted for endorsement of CTA/CTES include risk management information with respect to the specific processes identified.

In terms of progress axes to turn efficient risk management actions the following were recommended:

- ❖ The foundation of activities / projects proposed to be included into annual investment, procurement and maintenance programmes should also include risk management aspects: what Company risks are diminished and estimation of effects with respect to changing the impact and occurrence probability of such risks; these aspects will be also included into the reports pertaining to the achievement of annual programmes;
- ❖ Reports (syntheses) with respect to the manner in which annual investment, procurement and maintenance programmes have been achieved should be transmitted for information to the Chairman of the Risk Management Team from the Company as well, in order to supervise the mode in which risks are kept under control;
- ❖ Identification of interdependences: what other organisational entities can induce risks into the activities of one's own organisational entity; what other organisational entities might be impacted in case certain risks occur in the activities of an OE;

All the transmitted proposals have been implemented.

Audit Committee,

Jean - Valentin COMANESCU

Adrian GOICEA

Luiza POPESCU

Mihaela CONSTANTINOVICI
