LETTER OF INTENT

Bucharest, June 8, 2012

Mr. Olli Rehn
Vice-President of the European Commission
responsible for Economic and Monetary Affairs and the Euro
European Commission
BERL 10/299
B-1049 Brussels
Belgium

Ms. Margrethe Vestager Hansen
Minister for Economic Affairs and the Interior
Slotsholmsgade 10-12
1216 København K
Denmark

Dear Mr. Rehn,
Dear Ms. Vestager Hansen,

1. The Council of the European Union (Council Decision 2011/288/EU of 12 May 2011) decided to make precautionary medium-term financial assistance of up to EUR 1.4 billion available to Romania to support the continuation of the economic, fiscal and financial system reforms that we had started to implement under the previous Balance-of-Payments program (2009-2011) as well as structural reforms to increase the resilience and growth potential of Romania's economy.

2. We reaffirm our commitment to our economic program supported by the International Monetary Fund (IMF), the European Union (EU), and the World Bank (WB). Although further progress is needed in some areas, our track record remains strong and our previous efforts in economic stabilization and reforms are bearing fruit. Economic growth turned positive in 2011 and despite a marked slowdown in Europe, it is projected to remain positive in 2012. Nevertheless, the Romanian economy remains vulnerable to turbulence in international financial markets. Therefore, it will be essential to continue our efforts to consolidate public finances and implement an ambitious reform agenda. The Memorandum of Economic and Financial Policies (MEFP), second Supplemental Memorandum of Understanding (SMoU) and Technical Memorandum of Understanding (TMU) spell out in details the measures that we plan to take in the coming period.

3. In view of our strong performance under the program supported by the IMF and the EU, the Government of Romania and the National Bank of Romania (NBR) request completion of the

second EU review. We stand ready to take additional measures as appropriate to ensure achievement of its objectives. We intend to continue to treat the program as precautionary.

4. We shall consult with the IMF and the European Commission (EC) before modifying measures contained in the attached program documents or before adopting any new measure of relevance to the program, and shall continue to provide the IMF and the EC with all the necessary information for program monitoring.

5. We authorize the IMF and the EC to publish the Letter of Intent, its attachments, and the related staff reports. This letter is being copied to Mme. Lagarde.

Sincerely,

/s

Florin Georgescu
Deputy Prime Minister
and Minister of Public Finance

/s

Mugur Constantin Isărescu
Governor of the National Bank of Romania

Attached: Memorandum of Economic and Financial Policies (MEFP); Technical Memorandum of Understanding (TMU); the second Supplemental Memorandum of Understanding (SMoU) will be transmitted later upon official signature.

Attachment. Romania: Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

1. Romania's economic recovery continues, but a slight dip in activity in the last quarter of 2011 confirmed earlier signs of a slowdown. Real GDP grew by 2.5 percent in 2011 on the back of a very good harvest and a modest recovery in private demand. However, GDP declined by 0.2 percent in the fourth quarter (q/q) as domestic demand growth turned negative and export growth slowed. Preliminary data indicate that first quarter 2012 GDP growth was slightly negative. Adverse weather conditions and continued uncertainty in external markets weighed on economic activity, but retail sales and private credit held up relatively well. Headline inflation has fallen to a record low of 1.8 percent in April as a result of continued food price deflation from the high level of a year ago.

2. We expect growth of around 1½ percent for 2012 as a whole, although euro area weakness will continue to be a drag on activity. Growth will be driven by a recovery in domestic demand and better absorption of EU funds. Inflation is projected to stay within the central bank's target band, although it will temporarily increase towards the upper end of the band in the third quarter due to base effects. The current account deficit is expected to come in at around 4½ percent of GDP for 2012, reflecting slightly worse trade performance than expected during the first months of the year. Risks to economic activity continue to be on the downside, particularly from developments in international financial markets. Prudent policy implementation will thus be crucial in building confidence and securing policy buffers.

Fiscal Policy

3. In the first quarter of 2012, we met our fiscal deficit target, adjusted for higher capital spending. Tax revenues overperformed, reflecting a gradual recovery in the labor market, enhanced tax collection efforts, and the introduction of a pharmaceutical clawback tax as well as some one-off measures advancing the payment schedule for corporate income taxes. Nontax revenues lagged, however, as dividends from state-owned enterprises (SOEs) declined. On the expenditure side, we reduced public employment by another 7,000 positions which contributed to a lower wage bill. These resources were reallocated to higher capital spending and co-financing for EU-funded projects. Consequently, although execution of National Development and Infrastructure Program (PNDI) projects was below plans, total capital spending was higher than programmed. Unfortunately, the arrears targets for the central government and local governments were missed owing primarily to spending pressures in hospitals and local governments. We will take compensatory measures as described in paragraph 7.

4. For 2012, we remain committed to bringing the fiscal deficit in ESA terms below 3 percent of GDP. Nevertheless, there are risks, and sustained tax collection efforts and expenditure restraint will be required. In particular, domestically financed capital outlays will need to slow down considerably in order to stay within the budget ceiling and avoid

accumulation of arrears. We will set aside an additional 0.1 percent of GDP to safeguard against these capital spending pressures. We will enhance monitoring of the capital budget to ensure that low-performing projects are eliminated and that top-up amounts from EU-funded projects are used towards acceleration of the implementation of EU funded projects. Continued implementation of the clawback tax will help ensure nonaccumulation of arrears to the pharmaceutical industry.

5. Fiscal consolidation will continue in 2012, with the deficit falling by some 2 percentage points of GDP in structural terms as compared to 2011. However, in light of weak economic conditions, we have decided to ease the consolidation slightly compared to our previous plans. The cash deficit will increase from 1.9 percent of GDP to 2.2 percent of GDP, while the ESA deficit will remain below 3 percent of GDP, in compliance with our commitments under the EU Excessive Deficit Procedure. We will also take the necessary measures to ensure a further structural adjustment of at least 0.5 percent of GDP in 2013, in ESA terms.

6. Using the additional space under the new cash deficit target, we will implement an 8 percent wage increase beginning in June, with the remainder of the restoration of the 2010 cuts to be implemented in December if budget conditions permit. Given continued public employment reductions, the public sector wage bill will remain at 6.7 percent of GDP in 2012, as in 2011. We will use the remaining resources to gradually compensate pensioners for past mandatory health insurance contributions recently deemed unconstitutional.

7. After a year of declining arrears and unpaid bills in the general government (excluding SOEs), arrears increased in early 2012, causing program targets to be missed for both the central government and local governments. Arrears increased by RON 73 million and now stand at around 0.2 percent of GDP (concentrated mostly in local governments). In SOEs monitored under the program, arrears in the first quarter of 2012 stood at 2.7 percent of GDP, below the indicative program ceiling.

- In the ***health sector***, arrears in registered bills have now been eliminated. The clawback tax introduced during the first quarter of 2012 has yielded RON 282 million which will be fully used to pay down unregistered bills revealed during the stocktaking exercise and recorded at end-2011. We will also seek to limit overdue bills to hospitals from the Health House to prevent arrears in hospitals. We will seek to improve the design of the clawback tax as needed to facilitate its implementation.

- At the ***local government level***, arrears have started to increase again, concentrated in smaller local government administration units and to energy utilities. These developments reflect serious shortcomings in the monitoring and enforcement of the Local Public Finance Law (LPGFL). We have allocated additional transfers from the central government to help reduce these arrears. We shall undertake a comprehensive analysis of local government arrears to determine their causes and the entities to which the arrears are owed. We will seek technical assistance to evaluate the implementation of the LPGFL and the financial arrangements for local governments, including with regard to equalization formula for distributing resources across the different local government entities, tax sharing systems, insolvency procedures, and provisions for sanctions in order to prevent accumulation of arrears. In this connection, several line ministries have concluded multi-year co-financing contracts for each of the local government projects in their portfolio. We expect to complete this by end-June 2012, within the ceilings approved by the state budget law and the Fiscal Strategy 2012–14. Simultaneously, line ministries will carry out prioritization of the respective projects and upload relevant data in a capital investment database.

- For ***SOEs***, we are making progress in reducing arrears in monitored companies through swap operations, payments, and other financial operations. We anticipate that these measures will permit arrears of companies under monitoring to be reduced by RON 5 to 6 billion (1 percent of GDP) in the second half of 2012.

- We are making progress in the integration of the accounting reporting system with the ***Treasury payment system***, including the commitment control and reporting module for all levels of government. We have formed a working group to finalize the design of the system and we will launch the tender for the software provider by end-June 2012 (structural benchmark). This system will help control spending commitments to avoid future arrears.

- Over the next two years the ***period for paying bills*** submitted to the central government and social security system will be gradually reduced. EU Directive 2011/7/EU in this area will be transposed into Romanian law on a timely basis, with a draft sent to parliament by end-2012. Towards this end, we will seek to use revenues from the clawback tax to begin shortening the period for paying bills submitted for pharmaceuticals by end-June. Moreover, we will provide the financing necessary to gradually reduce the payment delays in the health sector from 210 days to 60 days as required by EU Directive 2011/7/EU in the Fiscal Strategy 2013–15.

- To prevent future arrears due to unfunded contracts, we will ensure that commitments made at the central government level for multiannual ***capital projects*** are fully reflected in the medium term budgetary framework. We will ensure that contracting for multiannual investment projects will be undertaken consistent with these multiannual commitment allocations. We have also decided to cancel all uncontracted PNDI investment projects to ensure that all investment is brought onto the budget in the future.

8. We continue our efforts to prepare and implement comprehensive ***reforms of the healthcare system***. We aim to produce a new draft framework law by end-June (structural benchmark), with public debate between July and September and parliamentary approval by end-October. The reform will address the persistent budgetary shortfalls in the healthcare system and enhance service quality. Over the medium term, given that public healthcare spending in

Romania as a share of GDP is among the lowest in the EU, we will ensure adequate financing in line with the recommendation of the 2008 Presidential Commission on health care policy, while factoring in the costs of population aging into spending needs. The reform will also ensure that spending commitments remain within the allocated budget. To contain the growth of spending, we will seek to reduce the scope of the public benefits package through greater reliance on cost-sharing and private supplementary insurance. We are also exploring options for greater private sector involvement in health care provision and financing to enhance efficiency and quality of services and to raise additional resources.

9. To address health sector financial imbalances in 2012–13, we are committed to implementing key measures even before the comprehensive framework legislation is enacted:

- In light of the design problems introduced into the ***copayment law*** approved by Parliament in early 2012, we will revise the copayment formula, basing it on a modest fixed amount independent of income and with an annual maximum ceiling. The revised law shall be prepared by mid-July, 2012 and adopted by end-August 2012 for implementation shortly thereafter.

- To control expenditures and ensure efficiency gains in the short term, we have approved Government Decision No. 359/18.04.2012, to introduce a ***negative list of health services and drugs***, based on the recommendations of the technical assistance carried out by the U.K. National Institute for Health and Clinical Excellence (NICE). We have approved the common Order of the Ministry of Health (MoH) and the National Health Insurance House no 423/118/2012 (to go into effect by May 15, 2012) that includes revised therapeutical protocols needed to implement the negative list. Also, in line with the NICE report, we plan to include in the framework contract with health service providers, provisions to reduce hospitalization periods. The implementation of the national hospital bed plan which established the number of hospital beds that can be contracted in 2012 with health insurance houses in every county was already done through MoH Order No 1577/2011. We have also created the legal framework for the Health Technology Assessment. We will not introduce any new drugs or indications in the list of compensated drugs without an interim health technology assessment. These actions should help contain costs and avoid new arrears in hospitals. We will continue to encourage generics where possible in the list of compensated and free drugs.

- We will monitor aggregate ***public hospital budgets*** to ensure that they are consistent with the expenditure programmed in the general government budget. Moreover, we will update the entire chapter about hospitals in the current Health Law. This new chapter will:

  (i) establish mandatory financial audits of all public hospitals (under national or local governments and foundations) and financial audits of the use of public funds;

(ii) make mandatory the public dissemination (via web pages) of budgets, incomes and expenditures of all public hospitals;

(iii) introduce sanctions for hospital managers overspending their available budgets; and

(iv) create the legal framework for converting some traditional public hospitals into (nonprofit) public foundations.

- We will continue implementation of a ***new healthcare IT system***. We have initiated the auditing of patient registries, which will be completed by end-2012. The contract for production of patient cards and for the IT system is signed and we will begin distributing electronic health cards to one million participants in August. This will help control fraud and abuse in the system while enabling better monitoring of spending commitments. All health system participants should be covered by end-2013. A new electronic prescription module for the National Health Information System is expected to be operational by June 2012. Efforts are ongoing under an EU-funded project to build a central health data base with electronic health records which is expected to be in place by mid-2013.

10. We have developed measures to streamline the tax system, building on recommendations of IMF technical assistance. These measures, to be enacted by July 2012, aim to: (i) simplify the declaration and payment of taxes on capital gains by changing to a system based on withholding of advance payments made by intermediaries (brokers) and a single statement filed by the taxpayer at the end of the year; and (ii) provide a neutral tax treatment for the cessation of bad debts in the banking sector. In addition, by end-September, we will approve measures to: (i) simplify the depreciation schedules for fixed assets; (ii) review the base for property taxes, which will vary depending on use of the property and not on the taxpayer; and (iii) simplify the deduction mechanism for personal income taxation by establishing a single deduction ceiling, revising or eliminating personal deductions. These measures will be effective from January 2013. We will also prepare a strategy to enlarge the tax base and undertake an impact assessment based on a review of taxes on agriculture and of social contributions of the self-employed. By mid-June 2012, we will submit a plan for adjusting excise tax rates to preserve real value, while coordinating measures to improve collections, particularly by reducing evasion of excise duties on alcohol.

11. We are making progress on a comprehensive reform of the tax administration (ANAF). Among the key developments are the following:

- The administrative measures designed to reduce ***the number of small taxpayers registered for VAT*** purposes are expected to produce the desired results starting with July. We maintain the commitment to reduce by 20 percent in the number of these taxpayers.[1] Following the revised provisions of the Fiscal Code to facilitate the

[1] Taking into account the methodological difficulties of evaluating the turnover during the fiscal year, the assessment of this objective will be made based on the level of December 2012 compared to December 2011.

cancellation of firms' registration for VAT purposes, 11,000 small taxpayers have been removed or have voluntarily deregistered from VAT system since end-2011.

- To further streamline the tax rolls, the new government has decided to reactivate plans to introduce a mandatory ***simplified tax regime for small taxpayers***. With help from the IMF and EC, we will prepare draft legislation in this area, by end-October 2012. We have already received approval from the EU Council of Ministers for increasing the VAT mandatory threshold to €65,000. The simplified regime needs to be discussed with business representatives in Romania and confirmed by the EU VAT Committee before entering into force, on January 1, 2013.

- With regard to ***High Net Wealth Individuals*** (HNWI), we have identified 300 individual taxpayers who will be included in our dedicated compliance program, based on available public information and on the analysis of tax records. By May 10, 2012, we will issue letters to encourage voluntary compliance as a first step to increased enforcement. We have agreed on the provision of training courses on indirect audit methods provided by tax administration specialists from other European countries and are currently seeking financing for acquiring an IT tool to be used in risk analysis.

- We will proceed with ***ANAF restructuring*** and modernization to increase the capacity and efficiency of the administration, including with the technical assistance from the IMF. We aim to consolidate to eight regional directorates by mid 2013 and 47 local tax offices, down from current 221, by the beginning of 2015. We will approve (by end-2012) a multiannual project with the World Bank to support the modernization.

- We are strengthening ***tax enforcement efforts*** by increasing our capacity for risk analysis and audit, and by improving the inter-operability with the Customs Authority and the Financial Guard. We have intensified audit actions, and redesigned the monitoring system for intra-community acquisitions (Traffic Control system). We will improve the procedure for transmitting the referrals for tax crimes and we will enhance the cooperation between ANAF, the Police and the Prosecutor's Office. By July 1, we will create a central unit for fighting intra-community fraud, with a focus on high-risk areas. We will also implement the centralized transmission of the garnishments within the enforcement proceeding and the introduction of an electronic system for monitoring of the enforcement results.

- We are undertaking a further expansion of ***e-filing*** and improvement of the one-stop shop for tax declarations. In March, almost 90 percent of the main tax returns filed to ANAF by companies were using the new e-filing facilities.

- ANAF will take over the collection of ***social contributions from self-employed individuals*** starting July 2012. By December 2012, we will adopt the necessary regulations to complete the integration of these categories of social contributions within the tax collection processes of ANAF and to allow the individual taxpayers to submit a single declaration for income tax and social contributions as of January 2013.

12. We continue to make progress in the implementation of the action plans based on the recommendations of the functional reviews of government ministries and agencies conducted last year. As a number of the initial deadlines were not met, a new monitoring procedure will be put in place, and line ministries will suggest corrective actions, progress indicators, and new realistic deadlines in their progress reports due by mid-July 2012. We will develop a staffing plan for the line ministries within the parameters of the wage bill allocation in the budget by end-September 2012, based on the functional reviews of these ministries where possible. Separately, we consider improvement of the efficiency and transparency of public procurement procedures as a top priority. We will incorporate by end of June 2012 in the national public procurement system, the recommendations of the evaluation carried out by the European Commission, with a view towards implementation in line with the agreed timetable until end-December 2012.

13. Although we have made some progress in absorbing EU funds, further efforts are still required to meet our goal of absorbing an additional €6 billion during 2012: €3.5 billion from Structural and Cohesion Funds and another €2.5 billion from Agricultural, Rural Development and Fisheries Funds. Although, due to harsh winter conditions at the beginning of the year, our planned absorption for 2012:Q1 was not realized, we maintain the target for the full year. We will step up our efforts to boost absorption and are closely working with the EC to simplify the procedure that will help with quicker absorption up to the beneficiaries' level.

14. We have compiled an investment portfolio of all government projects to ensure proper monitoring and prioritization. This portfolio will be used to focus on those projects where funding can be fully secured within a medium-term horizon (3–5 years), and to discontinue low priority and non-performing projects that cannot be fully financed within this horizon. We have improved the investment portfolio database to include state-budget co-financed projects at the local government level. The Ministry of Regional Development and Tourism and the Ministry of Environment and Forests are committed to ensure that execution spending under the PNDI does not exceed RON 1 billion in 2012 and RON 1 billion in 2013, and no new PNDI projects will be signed.

15. Local market conditions for public debt financing have been positive so far this year, and we took advantage of this to front load our financing for the year and to further build our buffers, which represent an essential protection against economic shocks. We have also continued to build the lei yield curve and to extend the maturity of our domestic debt with the issuance of new 4, 7, and 15-year bonds. On the external side, we successfully issued US$2.25 billion in 10-year dollar-denominated bonds in January and February at a favorable rate. We intend to return to the external market again in the second half of this year, if market conditions permit, to build a constant presence in international markets. In accordance with our debt management strategy, we have stepped up our outreach efforts to the international investment community and we have established an ongoing dialogue with primary dealers and institutional investors through monthly meetings. We will soon finish the amendment of primary dealer criteria aimed at ensuring

efficient issuance and distribution of domestic public debt. We have also supported efforts to centralize domestic bond trading on electronic trading platforms. We will continue efforts towards consolidating the fiscal buffers (including World Bank DPL-DDO financing), and maintain our objective of four months of gross financing needs to protect against unforeseen external shocks. The net interest paid on these buffers represents a necessary cost for insurance against shocks. We will undertake a project financed with European funds and implemented with support of the World Bank to strengthen the debt management division.

Financial Sector

16. The Romanian banking sector is well-capitalized and liquid but continues to be vulnerable to spillovers from the euro area. Private sector credit has grown, with lending (y-o-y) to the nonfinancial corporate sector up 9.8 percent and to households up by 4 percent in real terms at-end March. However, the nonperforming loan (NPL) ratio rose to 15.9 percent in March compared to 14.3 percent at end-2011. Total prudential provisions at end-March were sufficient to cover 99 percent of NPLs while the new IFRS provisioning ratio stood at a comfortable 68.4 percent. Banks' delayed NPL recognition and tighter supervisory enforcement could be reasons for the increase. As a result, bank profitability remains weak but has returned to positive territory in the first quarter of 2012. The capitalization of the banking sector remained strong at 14.5 percent at end-March. Overall banking sector liquidity has improved in the first quarter relative to the second half of 2011.

17. To continue to strengthen our ability to respond to any potential difficulties in the banking system, the NBR, Deposit Guarantee Fund (DGF), and Ministry of Public Finance (MOPF) will coordinate the implementation for operational preparedness plans and the arrangements for the newly acquired bank resolution powers. The details of the contingency planning framework will be shared with and agreed with the IMF and EC staff by end-June along with detailed plans for potentially vulnerable banks. Based on the Memorandum of Understanding, the NBR and the DFG will agree by end-May on the set of relevant financial information as well as the necessary internal arrangements to provide this information to the DGF. The NBR will continue to examine closely bank practices, for example in applying the new IFRS, so as to ensure that the loan-loss provisioning and assessment of credit risk of restructured loans remain prudent and in line with good international practices. Analysis of the experience of applying the prudential filter and the proposals for the permanent prudential arrangements that will apply in 2013 will be released for consultation with the industry by end-July. We will continue to share information on a timely basis with IMF and EC staff.

18. We will ensure that the tax treatment of bank receivables sold to Romanian firms is neutral, in order for banks to be able to mitigate the rise in impaired loans and improve their balance sheet management (by end-June). We will amend the Government Ordinance 10/2004 on the winding up of credit institutions by end-October, to ensure that the treatment of subordinated debt in the table of creditors is determined by contractual terms and not by capital thresholds. We will continue to consult with IMF and EC staff before introducing or amending the regulatory framework and avoid adopting legislative initiatives which could undermine

debtor discipline. The law amending the Law 503/2004 on the bankruptcy of insurance undertakings will be enacted by end-October 2012.

Monetary Policy

19. Headline annual inflation fell to a record low of 1.8 percent in April as a result of food price deflation following an exceptional harvest, and declining nonfuel commodity prices. The decline came in spite of bad weather during the first two months of the year as well as higher-than-expected oil prices. Core inflation continued to decline, reaching a low of 2 percent in March. In the third quarter, headline inflation is expected to temporarily rebound towards the upper end of the target band as the full impact of higher oil prices is felt and deflationary base effects on food prices are reversed. Nonetheless, inflation should remain within the NBR target band of 3±1 percent throughout the year. Upside risks remain, however, including from exchange rate volatility as a result of continued uncertainty in international markets and higher-than-projected adjustments in administrative prices.

20. In view of the favorable inflation outlook, we have lowered the policy rate by 100 basis points in four steps since November with little negative impact on the exchange rate, while inflation expectations have fallen. However, the ongoing instability in international financial markets and the attendant risks of excessive volatility in capital flows and the exchange rate, together with other inflation risks, require a continued prudent monetary policy stance, supported by a consistent macroeconomic policy mix. We will keep banks' reserve requirement ratios unchanged in the coming months and will act judiciously on the monetary policy rate. We will also continue regular repurchase operations as needed to ensure adequate liquidity in the banking system.

Structural Reforms

Regulatory and Strategic Reforms in Transport and Energy

21. Comprehensive reform of the transport and energy sectors is critical to enhance growth in Romania. In the ***transport sector***, we are developing a new general transport master plan, which will balance increasing demand and available fiscal means, ensure complementarities between different transport modes, and define priorities for medium- and long-term investment. We will continue to seek additional measures to raise revenues and reduce costs (including through the application of standard costs) to further improve the financial position of SOEs in the transport sector. As a prior action, the government will approve an emergency ordinance to grant a bridge loan to clear CFR rail infrastructure arrears to private energy providers and issue a government memorandum for elimination of penalties and gradual payment of principal on arrears owed to Electrica. This bridge loan will be replaced by a government-guaranteed loan to the rail firm by end-year. As a condition for this arrears clearance scheme, CFR Cai Ferate will present and begin executing the necessary cost reduction and revenue enhancement measures to assure its financial viability in 2013 and beyond. In addition, we will merge the subsidiaries of the railway companies CFR Cai Ferate, CFR Marfa, and CFR Calatori into their parent companies once

current legal challenges are resolved. Moreover, we will sign contracts with consultancy firms by end-June 2012 to identify qualified candidates for reconstituting the boards of directors and putting in place private management in CFR Cai Ferate and CFR Calatori as required by the Corporate Governance Law of November 2011. Finally, we plan to reach our goal of bringing the total railway network under management of CFR down to 15,500 line kilometers by leasing or closure of approximately 550 line kilometers in the second quarter of 2012.

22. For the ***energy sector***, we plan to enhance the pricing and regulatory framework by undertaking the following steps:[2]

- We have submitted to Parliament legislation to transpose the **EU Third Energy Package** into Romanian legislation. The draft electricity law provides for an appropriate unbundling regime, the definition of vulnerable consumers, and financial and operational independence of the energy regulator (ANRE). We expect Parliamentary approval by mid-June. For gas, we will approve our draft legislation by end-June.

- We will publish the approved ***electricity*** roadmap by June 30 and start phasing out regulated electricity prices in September 2012. Meanwhile, we will implement the agreed 5 percent adjustment in regulated prices to nonresidential and residential customers by June 30. ANRE will progressively increase the share of electricity sourced from the deregulated market by the electricity supply companies for their nonresidential customers, reaching 100 percent by end-2013. Regulated prices to nonresidential consumers will be eliminated from January 1, 2014. The pass-through mechanism for electricity purchases by the distribution companies provided for in the electricity supply regulation will be applied to strengthen investment in this sector in line with the regulatory framework. For households, ANRE will gradually increase the share of electricity sourced from deregulated market by electricity supply companies starting July 1, 2013, reaching 100 percent by end 2017 according to the approved electricity roadmap in March 2012.

- In the ***gas sector***, we have prepared and submitted to the IMF, the EC and the WB, a draft roadmap for the phasing out of regulated gas prices. This roadmap will be approved by government memorandum as a prior action for this review and will subsequently be published. Regulated gas prices for nonhouseholds will be increased starting in December 2012 and will converge to average European prices by end-2014 in a broadly linear fashion. Prices will be fully liberalized beginning in January 2015, unless a large gap remains between the average European price and the import price (which could endanger market stability), in which case adjustment would continue until end-2015. For households, regulated gas prices will be increased starting in July 2013 and converge to

[2] If EU infringement procedures require faster action, we will comply with such requirements.

international gas prices no later than December 2018. The key parameters of the roadmap will be included in the gas legislation, to be approved by government ordinance

- We have also established an inter-ministerial committee to prepare (in consultation with the oil and gas industry) a draft package of **tax, royalty and regulatory measures** for the oil and gas sector. The package will cover two parts: (a) a windfall levy to capture part of the extraordinary revenue to firms resulting from the liberalization of gas prices, as specified in the roadmap. Funds raised will help finance measures to protect vulnerable consumers from the impact of the price adjustments; and (b) a new oil and gas regulatory and taxation regime for the period 2015–24, to be prepared, with professional advice, by end-2012. In parallel, we will accelerate the ongoing negotiations on the Inter-Governmental Agreement (IGA) with Russia and will also strive to take steps to diversify our gas supply. We will take the necessary steps to lift existing export restrictions, and take measures to implement reverse flows on the gas interconnectors. Finally, we will actively seek to avoid a parliamentary override of the presidential veto of the gas export ban law, as it could lead to the suspension of the EU program because it contravenes basic principles of the EU single market.

- We are committed to developing a ***gas trading platform***. Towards this end, we named the electricity trading exchange (OPCOM) as the operator and requested OPCOM to develop the platform, with the aim of beginning operations on January 1, 2013. Once the platform is operational, we will offer shares of OPCOM (by sale or capital increase) to electricity and gas market participants and potentially other European energy exchanges, with the objective of achieving a wide participation of market participants in OPCOM's ownership as a basis for strong corporate governance.

- The process to terminate or renegotiate ***bilateral energy contracts*** of SOEs concluded outside of OPCOM has advanced in recent months. Three bilateral contracts expired or were terminated in late 2011. Those contracts that could not be legally terminated were renegotiated to increase prices, shorten contract durations, lower volumes, and make contract terms more transparent and public. Nine of 10 companies agreed in the negotiations that concluded on April 23, 2012. We have scheduled another round of negotiations in May in view of the EC announcement on April 25, 2012 of in-depth investigations to assess if Hidroelectrica sold electricity at preferential tariffs in breach of EU state aid rules. We will keep the IMF, EC and WB regularly informed of the progress of the renegotiations. Key elements of the contracts, including average price, duration and volume, will be published within 30 days after finalization. All new bilateral contracts of SOEs will be made transparently and nondiscriminatorily through OPCOM (electricity) and other competitive procedures (gas), and terms of the contracts will be published. As soon as the new gas trading platform is operational, all bilateral gas contracts will be traded through it.

- The Ministry of Administration and Interior, together with the MOPF, will ensure prompt application of Emergency Ordinance 69/2011 on subsidies for ***district heating***. While municipalities have allowed for some increase in end-consumer prices in 2011, large subsidy needs remain which municipalities only paid partially. To date, only one operator filed a complaint under the provisions of the Emergency Ordinance, though the harsh winter conditions in the first quarter of 2012 likely led to the accumulation of further unpaid bills to thermal energy operators. We will continue to monitor, and report to the IMF, EC, and WB on a quarterly basis, the financial situation of the district heating system and ensure prompt application of the provisions of the emergency ordinance.

State-Owned Enterprises

23. The first quarter indicative targets on the operating balance and arrears in key companies were met. We have established a fully functioning directorate of financial control within the MOPF to improve the monitoring of the financial and restructuring performance of SOEs. While we have achieved major improvements in some companies, overall progress has been slower than anticipated and substantial measures remain to be taken. Restructuring plans for the central government SOEs have been submitted and quantifiable targets for those SOEs have been established. We will monitor performance against those targets on a quarterly basis. Line ministries will submit the remaining revised plans by end-June 2012, in accordance with staff guidance concerning aim and content of these plans for all entities with more than 20 employees or a turnover of more than RON 1 million in 2010.

24. With the notable exception of the sale of a 15 percent stake in Transelectrica in March, the privatization agenda continues to experience significant delays. After selecting a winning bidder for the full privatization of Cuprumin, the signing of the purchase agreement within the required time frame failed. The sale of the remaining public shares in Oltchim has been postponed until September 2012 due to technical problems. Our performance on hiring transaction and legal advisors has been mixed:

- We selected legal and transaction advisor for majority privatizations of CFR Marfă, the legal advisors for the majority privatization of Electrica Serv, and Electrica Furnizare, and for Nuclearelectrica (IPO of at least 10 percent via capital increase). We will sign the contract with the legal and transaction advisor to CFR Marfă by mid-June.

- We hired transaction advisors for Romgaz (IPO of a 15 percent stake), Hidroelectrica (IPO of 10 percent to increase capital), but we still need to hire the legal and transaction advisors for Posta Romana (minority stake).

25. To accelerate these reforms, we have decided to concentrate our efforts in 2012 on the sale of shares in Hidroelectrica, Nuclearelectrica, Romgaz, and Transgaz (for companies in the Ministry of Economy's portfolio). We now plan to conduct the public offerings of Transgaz by end-June 2012, Romgaz by mid-September 2012, and Hidroelectrica by mid-October 2012, and

we will expedite preparations for the sale of Nuclearelectrica shares by end-2012. The public offerings of shares in Romgaz and Hidroelectrica will be a structural benchmark to be completed by mid-October 2012. The privatization of Tarom (IPO of 20 percent) and CFR Marfă (majority privatization) this year remains a priority for the Ministry of Transportation.

26. In addition, we will continue our privatization efforts in the following companies with a goal of public tenders by early 2013: (i) We now plan majority privatization of Electrica (including Electrica Furnizare and the three distribution companies) and the sale of Electrica's remaining shares in the already-privatized electricity distribution and supply companies; (ii) the new energy producer Hunedoara, to be created by July 2012 by merging the power plants in Paroşeni and Mintia and the four viable mines of CNH (majority privatization); (iii) the new energy producer Oltenia to be created by mid-May 2012 by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni (majority privatization);and (iv) Elcen Bucuresti (majority privatization). Efforts on other companies will also continue. We place the highest priority on the privatization of the Oltenia Energy Complex, in view of its large investment needs and critical role in Romania's energy security. We will continue our dialogue with the City of Bucharest in order to find a mutually acceptable solution to the closely linked companies Elcen Bucuresti and Radet. For all privatized companies, the government will closely monitor implementation of investment commitments.

27. We continue our actions to resolve the financial situation of Termoelectrica. We took Electrocentrale Bucharesti, Electrocentrale Mintia, and Electrocentrale Paroseni out of Termoelectrica and placed them directly under the Ministry of Economy. However, other valuable assets remain to be extracted, which we intend to place into a new entity, Electrocentrale Group. The remaining part of the company will be placed into voluntary liquidation by early September. We will submit to the trade register a legal proposal signed by the Termoelectrica's Board, based on an instruction from the Ministry of Economy, for the separation of Braila and Galati and shareholdings in energy companies from Termoelectrica by mid-June 2012.

28. We have begun to implement the requirements of our new corporate governance law, which marked a significant improvement in the framework for SOE corporate governance in Romania. We have received bids for a firm to assist in the process of selecting private management for key SOEs that remain under majority government ownership. New management teams and board members were to be selected by end-April 2012 to take office as soon as legally possible thereafter; however, we have experienced major delays in most companies except for Oltenia Energy Complex. In Oltenia, however, there are serious concerns about the suitability of the candidates selected for the board. We will reevaluate the process in Oltenia and will use only credible and independent firms for the search and only fully qualified candidates will be appointed as board members. We recognize that doing otherwise would undermine the credibility of our reform program for the public and prospective investors. We will make board and CEO appointments for Oltchim, Hidroelectrica and Electrica Furnizare by end-June; board appointments for Nuclearelectrica, Romgaz, and Oltenia Energy Complex by end-September;

CEO appointments at the latest by end-October 2012; and board and CEO appointment for Transgaz by end-2012. All appointments will be published for full transparency. For SOEs under the Ministry of Transport and Infrastructure we have started a corresponding board selection process for CFR Calatori and CFR Cai Ferate.

Other Structural Reforms

29. We continue to make progress in implementing new labor market and social assistance legislation. We have improved the functioning of the labor market by implementing the new Labor Code which has already contributed to a modest employment recovery and led to large numbers of informal work arrangements being converted to newly registered contracts. Nearly one third of these new contracts are fixed term. We will monitor implementation of the Social Dialogue Code and continue cooperation with the International Labor Organization (ILO) to ensure that the new legislation respects core ILO Conventions. The new Pension Law has significantly reduced the number of early retirements and disability pensions, and the retirement age continues to increase. We have also begun drafting secondary legislation for the Social Assistance Law which was approved last year to streamline and better target social benefits. We are committed to integrating different categories of social benefits in an efficient manner, including by ensuring that the most vulnerable households are protected from the planned gas and electricity price increases over the coming years.

30. We are committed to easing entry into retail markets to maintain a competitive environment, encourage innovation, and increase efficiency. There was a delay in the elimination of barriers to establishing large surface retail stores, originally expected in February 2012. We will now approve the corresponding legislative amendment by emergency ordinance by early June 2012. We are undertaking with the World Bank a Report on Observance of Standards and Codes (ROSC) on corporate insolvency systems and creditor rights. We expect the report from the World Bank in the coming months and will draft an insolvency code thereafter.

Table 1. Romania: Quantitative Program Targets

	2010	2011				2012				
	Dec	March	June	Sept	Dec	March		June	Sept	Dec
	Actual	Actual	Actual	Actual	Actual	Prog.	Prelim	Prog.	Prog.	Indicative
I. Quantitative Performance Criteria										
1. Floor on the change in net foreign assets (mln euros) 1/ 2/	20,026	119	1896	292.8	-457	533	1696	250	250	450
2. Floor on general government overall balance (mln lei) 3/	-33,621	-5,254	-11260	-13,685	-23,837	-4,550	-3,454	-7000	-9700	-14660
3. Ceiling on stock of central government and social security arrears (bn lei)	0.19	0.15	0.11	0.10	0.09	0.08	0.12	0.06	0.04	0.02
4. Ceiling on general government guarantees issued since end-2008 (face value, bn lei)	7.6	8.1	6.0	5.8	6.5	14.0	7.0	14.0	14.0	14.0
II. Continuous Performance Criterion										
5. Nonaccumulation of external debt arrears	0	0	0	0	0	0	0	0	0	0
III. Inflation Consultation										
6. 12-month rate of inflation in consumer prices										
Outer band (upper limit)	...	...	...	...	...	4.1		4.4	5.9	5.2
Inner band (upper limit)	...	...	...	...	...	3.1		3.4	4.9	4.2
Actual/*Center point*	7.9	8.0	8.0	3.5	3.1	*2.1*	2.4	*2.4*	*3.9*	*3.2*
Inner band (lower limit)	...	...	...	...	...	1.1		1.4	2.9	2.2
Outer band (lower limit)	...	...	...	...	...	0.1		0.4	1.9	1.2
IV. Indicative Target										
7. Ceiling on general government current primary spending (excl. EU funds and social assistance, mln lei)	131,938	30,670	62,578	94,133	128,317	32,000	30,910	64,800	99,000	133,700
8. Floor on operating balance (earnings before interest and tax, net of subsidies) of key SOEs. 4/ (as defined in TMU (bn. lei))	-6.8	-0.7	-1.8	-2.4	-2.0	-1.5	-0.4	-2.2	-2.7	-3.2
9. Ceiling on stock of arrears of key SOEs (as defined in TMU (bn. lei))	17.9	19.2	19.7	18.5	14.9	17.0	16.2	15.0	12.5	9.0
10. Ceiling on stock of local government arrears (bn lei)	0.91	0.82	0.81	0.82	0.75	0.70	0.79	0.50	0.45	0.30
11. Ceiling on the execution of the PNDI program (mln, lei) 4/	...	...	...	...	...	200	66	400	700	1000

1/ The end-December 2010 figure is a stock.
2/ March 2012 target is adjusted up by 533 million Euros to reflect more than projected Eurobond placement of the MoPF
3/ Cumulative figure during calendar year (e.g. March 2011 figure is cumulative from January 1, 2011). March 2012 target is adjusted by RON 1450 million to RON 4550 for capital spending.
4/ Cumulative figure during calendar year (e.g. March 2012 figure is cumulative from January 1, 2012).

Table 2. Romania: Performance for Fifth Review

Measure	Target Date	Comment
Prior Action		
1. Approve a roadmap for the deregulation of gas prices as specified in the MEFP.		
2. The government will approve a memorandum for the cancellation of penalties on railroad company arrears to Electrica and an emergency ordinance to grant a bridge loan to clear CFR rail infrastructure arrears to private energy providers.		
Quantitative performance criteria		
1. Floor on net foreign assets	Mar. 31, 2012	Met
2. Floor on general government overall balance	Mar. 31, 2012	Met
3. Ceiling on central government and social security domestic arrears	Mar. 31, 2012	Not Met
4. Ceiling on general government guarantees	Mar. 31, 2012	Met
5. Non-accumulation of external debt arrears	Mar. 31, 2012	Met
Quantitative Indicative Target		
1. Ceiling on general government current primary spending	Mar. 31, 2012	Met
2. Floor on operating balance of key SOEs	Mar. 31, 2012	Met
3. Ceiling on stock of arrears of key SOEs	Mar. 31, 2012	Met
4. Ceiling on stock of local government arrears	Mar. 31, 2012	Not Met
Inflation consultation band		
Inner band	Mar. 31, 2012	Met
Outer band	Mar. 31, 2012	Met
Structural benchmarks		
1. Undertake SOE reforms, including (i) Appointment of legal advisors for privatization of CFR Marfa, TAROM, Transelectrica, Transgaz, and Romgaz; (ii) Preparation of action plans for the remaining SOEs of the central government; (iii) Design mechanisms to facilitate restructuring and securitizing SOE arrears.	July 15, 2011	Met
2. Completion of a comprehensive review of the existing investment portfolio, which will prioritize and evaluate existing projects to focus on those where funding can be fully secured, examine the viability of old projects, with low priority and unviable ones discontinued, and production of a final report and an action plan.	Sept. 30, 2011	Met
3. Prepare comprehensive amendments to the health care legislation to address the persistent budgetary shortfalls and to ensure high quality health care services. 1/	Dec. 31, 2011	Reset to June 30, 2012
4. Appoint transaction advisor for group 2 and legal advisor for group 3 as specified in MEFP.	Feb. 15, 2012	Met
5. An increase of 5 percent in the electricity price for both residential and nonresidential consumers.	June 30, 2012	
New structural benchmarks		
1. Launch tender for providing software to integrate the accounting reporting system with the Treasury payment system.	June 30, 2012	
2. Hold IPOs of government shares in Romgaz and Hidroelectrica.	October 15, 2012	

1/ The health care legislation is being revised to better address lack of financial controls and adequacy of funding needs in the health sector. The provisions on private insurance for basic medical benefits are also being reassessed.

Romania: Technical Memorandum of Understanding

June 8, 2012

1. This Technical Memorandum of Understanding (TMU) defines the variables included in the quantitative performance criteria and indicative targets set out in the Memorandum of Economic and Financial Policies (MEFP), the key assumptions, the methods to be applied in assessing program performance, and the reporting requirements to ensure adequate monitoring of economic and financial developments. The quantitative performance criteria and indicative targets, and structural benchmarks for 2011 and 2012 are listed in Tables 1 and 2 of the MEFP, respectively.

2. For the purposes of the program, *the exchange rates* of the Romanian Leu (RON) to the euro is set at RON 4.2848 = €1, to the U.S. dollar at RON 3.2045 = $1, to the Japanese yen at RON 3.9400 = ¥100, and to the pound sterling at RON 4.9673 = £1, the rates as shown on the National Bank of Romania's (NBR's) website as of December 31, 2010. The exchange rates to other currencies, where applicable, will also be the ones shown on the NBR's website as of December 31, 2010.

3. For the purposes of the program, the *general government* includes the entitie*s as defined in the 2012 budget*. These are: the central government (state budget, treasury, self-financed state entities included in the budget, etc.), local governments, social security funds (pension, health, and unemployment), road fund company, and administration of the property fund. This definition of general government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's *Manual on Government Finance Statistics 2001*. The authorities will inform IMF staff of the creation of any such new funds or programs immediately. As mentioned in the MEFP [¶3] and ¶11 below, this definition will be expanded to cover state-owned enterprises incorporated into the general government accounts under ESA95, upon completion of the review being undertaken by Eurostat and successful implementation of the monitoring system being undertaken by the Ministry of Public Finance (MOPF).

QUANTITATIVE PERFORMANCE CRITERIA, INDICATIVE TARGETS, INFLATION CONSULTATION BAND, AND CONTINUOUS PERFORMANCE CRITERIA

A. Floor on the Change in Net Foreign Assets

4. For program purposes, Net Foreign Assets (NFA) are defined as the NFA of the NBR minus Treasury liabilities to the International Monetary Fund.

5. NFA of the NBR are defined as the euro value of gross foreign assets of the NBR (including reserve requirements of the commercial banking system held at the NBR) minus gross foreign liabilities of the NBR; and will be measured on the basis of the NBR's operational rather than accounting definitions. Non-euro denominated foreign assets and liabilities will be converted into euro at the program exchange rates.

6. Gross foreign assets of the NBR are defined to include the NBR's holdings of SDRs, the country's reserve position at the IMF, holdings of cash, securities and deposits abroad in convertible foreign currencies. Excluded from reserve assets are: (i) gold and other precious metals; (ii) assets in nonconvertible currencies; (iii) illiquid assets; (iv) any assets that are pledged, collateralized, or otherwise encumbered, unless there is also a gross foreign liability associated with it; (v) claims on residents; and (vi) claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options).

7. Gross foreign liabilities of the NBR are defined as all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the IMF, but excluding (i) banks' foreign currency deposits against reserve requirements; and (ii) government foreign currency deposits at the NBR. This definition is meant to bring the concept of foreign liabilities closer to the balance of payment definition, on which the targets are based.

Floor on Cumulative Change in NFA from the Beginning of 2011 and 2012 (in mln. euros)[1]

	2010	2011				2012				
	Dec. stock	Mar. actual	Jun. actual	Sep. actual	Dec. actual	Dec. Stock	Mar. actual	Jun. PC	Sep. PC	Dec. indicat.
Cumulative change in NFA	20,026	119[2]	1,896	293	-457[3]	19,569	1,696[4]	250	250	450
Memorandum Item: Gross Foreign Assets	32,432	996	2,793	1206	464	32,897	1,662	250	-350	-1050

[1] PC = performance criterion; data for end-month. Flows are cumulative from the beginning of the same calendar year (e.g., March 2012 figure is cumulative from January 1, 2012). Current year stocks are obtained by adding the flows to the previous end-year stock.
[2] PC met with an adjustment for the WB disbursement of €300 million.
[3] PC met with an adjustment for the Eurobond issue of €1000 million.
[4] PC met with an upward adjustment by €533 million due to the more than projected Eurobond issue of MoPF.

8. The NFA targets will be adjusted upward (downward) by the full amount of the surplus (shortfall) relative to the baseline of external bond placement by the MOPF. NFA targets will also be adjusted (i) upward (downward) by the surplus (shortfall) in program disbursements relative to the baseline projection (Program disbursements are defined as external disbursements from official creditors (WB and the EC) that are usable for the financing of the overall central government budget) and (ii) upward by the increase in commercial bank reserve requirements held with the NBR relative to end-December 2011 (€6,037 million), measured at program exchange rates.

External Program and MOPF Disbursements—Baseline Projections (in mln. euros)[1]

	2011				2012			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Cumulative change under external program	1,200	1,650	2,050	2,050	0	0	0	0
Cumulative change in external MOPF bond placement				1,000	1,150	2500	2500	2500

1 Flows are cumulative from the beginning of the same calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).

B. Consultation Mechanism on the 12-Month Rate of Inflation

9. The quarterly consultation bands for the 12-month rate of inflation in consumer prices (as measured by the headline consumer price index (CPI) published by the Romanian Statistical Institute), are specified below. Should the observed year-on-year rate of CPI inflation fall outside the outer bands specified below, the authorities will complete a consultation with the IMF on their proposed policy response before requesting further purchases under the program. In addition, the NBR will conduct discussions with IMF staff should the observed year-on-year rate of CPI inflation fall outside the inner bands specified for the end of each quarter in the table below.

Inflation Consultation Band

	2010	2011				2012			
	Dec. actual	Mar. actual	Jun. actual	Sep. actual	Dec. actual	Mar. actual	Jun. target	Sep. target	Dec. indicat.
Outer band (upper limit)							4.4	5.9	5.2
Inner band (upper limit)							3.4	4.9	4.2
Actual / *Center point*	7.9	8.0	8.0	3.5	3.1	2.4	*2.4*	*3.9*	*3.2*
Inner band (lower limit)							1.4	2.9	2.2
Outer band (lower limit)							0.4	1.9	1.2

C. Performance Criterion on General Government Balance

10. The budget deficit will be monitored quarterly through the cash balance of the general government in GFS 1986 classification. The authorities will consult with IMF staff on corrective measures in the event of shortfalls in government revenue and financing.

Cumulative Floor on General Government Balance[1]

	(In millions of lei)
End-December 2010 (actual)	-33,621
End-March 2011 (actual)	-5,254
End-June 2011 (actual)	-11,260
End-September 2011 (actual)	-13,685
End-December 2011 (actual)	-23,837
End-March 2012 (actual)[2]	-3,454
End-June 2012 (performance criterion)[3]	-7,000
End-September 2012 (performance criterion)	-9,700
End-December 2012 (indicative)	-14,660

[1] Cumulative figure during calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).
[2] Target for 2012:Q1 is adjusted by RON 1450 million to RON 4550 for capital spending.
[3] Excluding the bridge loan granted by the Ministry of Finance to CN Cai Ferate CFR SA

11. Starting from end-March 2012 performance criterion, the budget deficit will be measured from above the line using the budget execution data. Expenditure will include the value of the works executed under the contracts from the National Program for Infrastructure Development (PNDI).

12. Once the reporting system for state-owned enterprises (SOEs) is fully functional, the budget deficit target will be modified to be in line with the expanded definition of the general government, which will include the following SOEs: C.N. de Autostrăzi si Drumuri Nationale din România SA, Fondul Proprietatea SA,[1] Metrorex SA, Administratia Fluviala Dunarea de Jos, CFR Calatori, CN Huila Petrosani SA, SN a Carbunelui Ploiesti SA, CN Radiocomunicatii Constanta, SC Interventii Feroviare, CFR Infrastructura, SC Termoelectrica SA, Societatea Nationala Aeroportul International Mihail Kogalniceanu, SC Electrificare SA, CN Administratia Canalelor Navigabile Constanța SA , SC CN Romarm, Santierul Naval Mangalia SA, Societatea Feroviara de Turism SFT CFR, SC Uzina Mecanica Orastie, Societatea de Transport Maritim si de Coasta CFR Ferryboat SA, SC Avioane Craiova SA, SC Petromin SA, SC Constructii Aeronautice SA, SC Sanevit 2003 SA, SC Uzina AutoMecanica SA Moreni, SC Terom SA, SN Plafar SA, and SC Nicolina SA.

[1] Subject to confirmation from Eurostat.

13. The Ministry of Public Finance (MOPF) will also provide monthly data to measure the deficit from below the line. The balance of the general government measured from below the line will include:

+ (i) net external financing, excluding valuation gains and losses;
+ (ii) change in net domestic credit from the financial system, excluding valuation gains and losses from deposits denominated in foreign currency and including adjustments for;
 + (a) received EU funds not yet spent (advance payments);
 + (b) claims of the government on EU funds;
 + (c) property fund obligations not yet paid;
+ (iii) change in the stock of issued government securities, net of valuation changes;
+ (iv) net changes in other financing;
 of which: (a) temporary financing for EU projects;
 (b) reimbursement payments from EU for the EU projects

14. If the difference between the general government deficit measured from above the line and from below the line is larger than lei 200 million each quarter during 2011 and 2012, the MOPF will consult with IMF staff.

15. The performance criterion for the general government balance for end-June 2012 (measured on a cumulative basis from the beginning of the year) will be adjusted downward by the amount that capital spending (including spending related to EU funds and arrears reduction plans, but excluding the works executed under the contracts from the PNDI) exceeds lei 15,230 million, respectively, up to a limit of lei 1,800 million. The performance criterion for the general government balance for end-June 2012 and end-September (measured on a cumulative basis from the beginning of the year) will be adjusted downward by the amount of a bridge bank loan for arrears clearance of CFR Infrastructura, up to a limit of lei 900 million.

D. Performance Criterion Limiting the Issuance of Government Guarantees to the Non-Financial Private Sector and Public Enterprises

16. The issuance of general government guarantees to the nonfinancial private sector and public enterprises will be limited during the program period. This ceiling is set at RON 14 billion but may be adjusted upward by up to RON 9.6 billion for guarantees for financing the Nabucco project. Revision to targets will be renegotiated during future missions to allow for reasonable public guarantees in the context of privatization of majority stakes in state-owned enterprises and securitization of domestic payment arrears.

Ceiling on New General Government Guarantees Issued from end 2008 Until:	(In billions of lei)
End-December 2010 (actual)	7.6
End-March 2011 (actual)	8.1
End-June 2011 (actual)	6.0
End-September 2011 (actual)	5.8
End-December 2011 (actual)	6.5
End-March 2012 (actual)	7.0
End-June 2012 (performance criterion)	14.0
End-September 2012 (performance criterion)	14.0
End-December 2012 (indicative)	14.0

E. Performance Criterion on the Stock of Domestic Arrears by the Central Government and Social Security System

17. The performance criterion established on the stock in domestic payments arrears of the central government and social security sector (as defined in ¶3 above) contemplates their elimination during the program period. The stock will be measured net of intergovernmental arrears, but both gross and net arrears will be reported by the government. In case of need, the government will take corrective measures to prevent the accumulation of new spending arrears. For the purpose of the program, arrears mean accounts payable past due date by 90 days (in line with ESA95 definitions for expenditures).

Stock of Central Government and Social Security Arrears	(In billions of lei)
End-December 2010 (actual)	0.19
End-March 2011 (actual)	0.15
End-June 2011 (actual)	0.11
End-September 2011 (actual)	0.10
End-December 2011 (actual)	0.09
End-March 2012 (actual)	0.12
End-June 2012 (performance criterion)	0.06
End-September 2012 (performance criterion)	0.04
End-December 2012 (indicative)	0.02

F. Continuous Performance Criteria on Non-Accumulation of External Payments Arrears by the General Government

18. The general government will not accumulate external payment arrears during the program period. For the purposes of this performance criterion, an external payment arrear will be defined as a payment by the general government that has not been made within seven days of falling due. The performance criterion will apply on a continuous basis.

G. Indicative Target on General Government Current Primary Spending

19. The indicative target on current primary expenditure of the general government is defined as spending on personnel, goods and services excluding EU funds (specified under external grant category), subsidies, transfers to public entities, pensions (social security budget in social assistance category), state aid and other spending in other transfers category, Reserve Fund, and other expenditure as classified in the monthly reporting tables. Actual data (to which the target will be compared) should include payments related to arrears reduction plans.

Cumulative Change in General Government Current Primary Expenditures[1]	(In millions of lei)
End-December 2010 (actual)	131,938
End-March 2011 (actual)	30,670
End-June 2011 (actual)	62,578
End-September 2011 (actual)	94,133
End-December 2011 (actual)	128,317
End-March 2012 (actual)	30910
End-June 2012 (indicative)	64,800
End-September 2012 (indicative)	99,000
End-December 2012 (indicative)	133,700

[1] Cumulative figure during calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).

H. Indicative Target on the Execution of the PNDI Program

20. An indicative target on the ceiling is set for the execution of the PNDI program.

Ceiling for the Execution of the PNDI Program	(In million of lei)
End-March 2012 (indicative)	200
End-June 2012 (indicative)	400
End-September 2012 (indicative)	700
End-December 2012 (indicative)	1,000

[1] Cumulative figure during calendar year (e.g., March 2012 figure is cumulative from
January 1, 2012).

I. Indicative Target on Local Government Arrears

21. The indicative target on the stock of domestic payments arrears of local governments contemplates no accumulation of new arrears and their reduction during the program period. In case of need, the government will take corrective measures to prevent the accumulation of new spending arrears. For the purpose of the program, arrears mean accounts payable past the due date by 90 days (in line with ESA95 definitions for expenditures).

Stock in Local Government Arrears	(In billions of lei)
End-December 2010 (actual)	0.91
End-March 2011 (actual)	0.82
End-June 2011 (actual)	0.81
End-September 2011 (actual)	0.82
End-December 2011 (actual)	0.75
End-March 2012 (actual)	0.79
End-June 2012 (indicative)	0.50
End-September 2012 (indicative)	0.45
End-December 2012 (indicative)	0.30

J. Absorption of EU Funds

22. The EU funds contribution mentioned in the MoU conditionality is to be measured taking into account the eligible expenditure from both the structural and cohesion funds (SCF) and the European Agricultural Fund for Rural Development (EAFRD).

K. Monitoring of Public Enterprises

23. Public enterprises are defined as all companies, research institutes and *regii autonome* with a cumulative public capital share of 50 percent or more, held directly or indirectly by local governments and the central government.

24. A quarterly indicative target for 2011 was set on the aggregate operating balance (earnings before interest and tax) net of subsidies, accumulated per calendar year, of the following public enterprises: C.N. Căi Ferate CFR S.A., C.N. de Autostrăzi si Drumuri Nationale din România S.A., C.N. a Huilei S.A., C.N. Poşta Română S.A., S.C. Complexul Energetic Turceni S.A., S.C. Filiala de Intretinere si Servicii Energetice "Electrica Serv" - S.A., S.C. Metrorex S.A., S.N. de Transport Feroviar de Marfă "CFR Marfă" S.A., S.N. Transport Feroviar de Călători "CFR Călători" S.A., C.N. Tarom S.A., S.C. Electrocentrale Bucuresti S.A., S.C. Electrica Furnizare Transilvania Nord S.A., S.C. Oltchim S.A., S.C. Termoelectrica S.A., SNa Lignitului Oltenia S.A., S.C. Electrificare CFR S.A., S. C. Interventii Feroviare S.A., S. C. Telecomunicatii C.F.R. S.A. The data shall be reported with operating results by firm. Actual performance was as follows:

Floor on Cumulative Operating Balance[1,2]	(In billions of lei)
End-December 2010 (actual)	-6.8
End-March 2011 (actual)	-0.7
End-June 2011 (actual)	-1.8
End-September 2011 (actual)	-2.4
End-December 2011 (adjusted preliminary)	-2.0

[1] Cumulative figure during calendar year (e.g., March 2011 figure is cumulative from January 1, 2011).
[2] End September and end-December preliminary data exclude operating balance of S.C. Electrica Furnizare Transilvania Nord S.A.

25. A quarterly indicative target for 2012 is set on the aggregate operating balance (earnings before interest and tax) net of subsidies, accumulated per calendar year, of the following public enterprises: C.N. de Autostrăzi si Drumuri Nationale din România S.A., S.C. Metrorex S.A., C.N. Căi Ferate CFR S.A. (including S. C. Interventii Feroviare S.A.), S.C. Electrificare CFR S.A., S. C. Telecomunicatii C.F.R. S.A., S.N. Transport Feroviar de Călători "CFR Călători" S.A., S.N. de Transport Feroviar de Marfă "CFR Marfă" S.A.,C.N. Tarom S.A., S.C. Oltchim S.A., C.N. a Huilei S.A., S.C. Termoelectrica S.A., S.C. Electrocentrale Deva S.A., S.C. Electrocentrale Paroseni S.A., S.C. Electrocentrale Galati S.A., S.C. Electrocentrale Bucuresti S.A., SNa Lignitului Oltenia S.A., S.C. Complexul Energetic Craiova S.A., S.C. Complexul Energetic Rovinari S.A., S.C. Complexul Energetic Turceni S.A., S.C. Hidroelectrica, S.C. Electrica S.A., C.N. Poşta Română S.A. The data shall be reported with operating results by firm. The targets will be as follows:

Floor on Cumulative Operating Balance[1]	(In billions of lei)
End-March 2012 (preliminary)	-0.4
End-June 2012 (indicative)	-2.2
End-September 2012 (indicative)	-2.7
End-December 2012 (indicative)	-3.2

[1] Cumulative figure during calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).

26. In case one of these firms is liquidated, or its majority share is privatized or merged with a company not listed above, the aggregate target listed above will be adjusted by the original operating balance target for this firm. If any of the companies listed above is split into a new company, both companies will remain under monitoring. If some of the above companies are merged, the newly created companies will remain under monitoring.

27. A quarterly indicative target for 2011 was set on the stock of arrears of the public enterprises listed in ¶23. The data shall be reported at the firm level. Actual performance was as follows:

Ceiling on Stock of Arrears[1]	(In billions of lei)
End-December 2010 (actual)	17.9
End-March 2011 (actual)	19.2
End-June 2011 (actual)	19.7
End-September 2011 (actual)	18.5
End-December 2011 (adjusted preliminary)	14.9

[1] End September and end-December preliminary data exclude arrears of S.C. Electrica Furnizare Transilvania Nord S.A.

28. A quarterly indicative target for 2012 is set on the stock of arrears of the public enterprises listed in ¶24. The data shall be reported at the firm level. The targets will be as follows:

Ceiling on Stock of Arrears	(In billions of lei)
End-March 2012 (preliminary)	16.2
End-June 2012 (indicative)	15.0
End-September 2012 (indicative)	12.5
End-December 2012 (indicative)	9.0

29. In case one of these firms is liquidated, its majority share is privatized or is merged with a company not listed above, the aggregate target listed above will be adjusted by the original arrears target for this firm. If any of the companies listed above is split into a new company, both companies will remain under monitoring. If some of the above companies are merged, the newly created companies will remain under monitoring.

L. Private Management for Key SOEs

30. Private management will be selected, in line with MEFP ¶28, at least for the following state-owned enterprises: i) S.N. Nuclearelectrica ii) C.N. Căi Ferate CFR S.A. (including S. C. Interventii Feroviare S.A.), iii) SNa Lignitului Oltenia S.A./Complexul Energetic Oltenia, iv) S.C. Electrica Furnizare S.A., v) S.C. Hidroelectrica, (vi) S.C. Oltchim S.A., (vii) S.N. Romgaz,, (viii) S.N. Transport Feroviar de Călători "CFR Călători" S.A., and (ix) S.N. Transgaz.

31. In addition, private management is envisaged in the course of 2012 for the following additional companies: i) CN Transelectrica, ii) C.N. Adm. Port. Maritim Constanta S.A., (iii) C.N. Poşta Română S.A., (iv) C.N. Tarom S.A., (v) C.N. Romarm aparat central; and vi) S.C. Electrificare CFR S.A..

M. Reporting Requirements

32. Performance under the program will be monitored from data supplied to the IMF and EC by the NBR and the MOPF as outlined in the table below. The authorities will transmit promptly to IMF and EC staff any data revisions as well as other information necessary to monitor the arrangement with the IMF and EC

Romania: Data Provision to the IMF and EC

Item	Periodicity
To be provided by the Ministry of Finance	
Preliminary monthly data on general government accounts, including public enterprises as defined by ESA95	Monthly, on the 25th day of the following month
Quarterly final data on project execution under the Program for National Infrastructure Development	Quarterly, on the 25th day past the test date
Quarterly final data on general government accounts, including public enterprises as defined by ESA95	Quarterly cash data, on the 35th day past the test date; Quarterly accrual data, on the 55th day past test date
The budget deficit of the general government using ESA95 definition	Quarterly, with a lag of three months
Preliminary data on below-the-line financing for the general government	Monthly, with a lag of no more than 35 days past the test date
Final quarterly data on below-the-line financing for the general government	Quarterly, no later than 45 days past the test date
Total accounts payable and arrears of the general government, including local governments	Preliminary monthly, within the next month. Quarterly, within 55 days
Stock of the central government external arrears	Daily, with a lag of not more than seven days
Public debt and new guarantees issued by the general government	Monthly, within one month
Preliminary monthly data on general government primary spending, net of EU disbursements	Preliminary monthly data within 25 days
Final quarterly data on general government primary spending, net of EU disbursements	Quarterly, within 35 days from the test date

Preliminary data on the operating balance, profits, stock of arrears, and personnel expenditures for each key public enterprise as defined in ¶22	Quarterly, within 30 days
Final data on the operating balance, profits, stock of arrears, and personnel expenditures for each key public enterprise as defined in ¶22	Quarterly, end May for the previous year and end-August for first half of the current year
Data on EU project grants (reimbursements and advances), capital expenditures and subsidies covered by EU advances or eligible for EU reimbursement on EU supported projects specifically agreed with the EU	Monthly, within three weeks of the end of each month
The balance of the TSA in RON	Monthly, within two weeks of the end of each month
The balance of the two foreign currency accounts used for budget financing and public debt redemption purposes (average, and end-of-period)	Monthly, within two weeks of the end of each month
The balance of the privatization receipts registered in the account of the State Treasury, details on any claims on these receipts and projected net outflows.	Monthly, within two weeks of the end of each month
Reporting of progress in the implementation of the Romanian public administration's functional review	Quarterly, to be sent two weeks before each mission for each of the 12 ministries

To be provided by the National Bank of Romania

NFA data, by components, in both program and actual exchange rates	Weekly, each Monday succeeding the reporting week and with a 3 working day lag in the case of end-quarter data

Monetary survey data in the format agreed with IMF and EC staff	Monthly, within 30 days of the end of the month
The schedule of contractual external payments of the *banking sector* falling due in the next four quarters, interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The schedule of contractual external payments of the *corporate sector* falling due in the next four quarters interest and amortization (for medium and long-term loans)	Monthly, 45 days after the end of each month
The stock of short-term external debt of banks and corporate	Monthly, 45 days after the end of each month
Balance of payments in the IMF format currently used to report	Monthly, 45 days after the end of each month
Exposure (deposits, loans, subordinated loans) of (i) foreign parent banks to their subsidiaries in Romania; (ii) IFI and (iii) other creditors to banks in Romania (by national and foreign currency).	Monthly, 20 days after the end of each month
Financial soundness indicators[2]	Monthly, 45 days after the end of each month
Foreign currency reserves including information on FX market interventions and swaps by the NBR	Bi-weekly
The IMF and the EC shall be immediately informed in case of sudden loss of reserves exceeding EUR 600 million, or if the stock of foreign exchange reserves falls below the floor of EUR 23 billion	Immediately, upon occurrence

[2] Data on solvency should be provided on quarterly basis.

ANNEX

Measures to Improve Performance of SOEs under Monitoring

C.N. Căi Ferate CFR S.A (including S.C Interventii Feroviare).

- Obtain a government memorandum to allow elimination of the penalties associated with arrears to Electrica (prior action);
- Secure bridge loan from the Ministry of Public Finance to finance the elimination of arrears to private electricity suppliers (prior action);
- Present and begin executing the necessary cost reduction and revenue enhancement measures by mid-June 2012 to assure financial viability in 2013 and beyond
- Sign contract with consultant to hire private management and board members by end-June 2012;
- Resubmit merger application, in accordance with recent court ruling, to merge Interventii Feroviare, S.C. Între□inere Mecanizată and S.C. Sere □i Pepiniere into CN. Cai Ferate CFR by end-June 2012;
- Reduce personnel by an additional 11 positions that were originally with Interventii by end-June 2012;
- Continue tendering process for public service obligations and infrastructure maintenance for the remaining 524 line kilometers of extended railway out of prior total of 1,600, bringing network under management of CFR down to 15,500 line kilometers, by end-June 2012;
- Sign contract for consultancy services for the detailed analysis of the national railway network by end-June 2012;
- Implement agreement between CFR-SA from Romania and Eurostation from Belgium for the modernization of the North Station by end-June 2012;
- Repair and put into circulation the Bucharest railway ring for passengers transport by end-July 2012;
- Obtain, in conjunction with Ministry of Public Finance, a government-guaranteed loan to repay government bridge loan that was provided to clear arrears by-end October 2012;
- Appoint new board members and private management by end-September 2012;
- Increase by 10 percent y/y rental revenue by end-December 2012;
- Continue reduction in personnel and maintenance expenditures and reorganize and rationalize the sectioning points;
- Present a short report on measures that have been implemented during the last month, key findings of the various studies and new measures envisaged, during first week of every month.
- Identify sources of financing for continuation of construction works on Ramnicu Valcea – Valcele railway line.

S.C. Electrificare CFR S.A.

- Sign contract with consultant to hire private management and board members by end-June-2012;
- Continue the restructuring and modernization program, including a further reduction of 45 positions by end-2012 (compared with September 1, 2011);
- Ensure the acquisition of electricity via OPCOM when taking over supply and distribution activity for traction energy for the whole railway system.

S.C. Telecomunicatii C.F.R. S.A.

- Elaborate legislation establishing the new framework for supplying telecommunication services within an integrated system by end-2012.

S.N. de Transport Feroviar de Marfă "CFR Marfă" S.A.

- Provide report of pros and cons for potential merger of maintenance companies of Marfa and Calatori (Societatea Comercială Întreţinere şi Reparaţii Locomotive şi Utilaje "C.F.R. IRLU"-S.A and Societatea Comerciala de Reparaţii Locomotive C.F.R. SCRL Braşov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by mid-May 2012;Sign contract with privatization consultant for majority privatization to strategic investor by mid-June 2012;
- Send notification to DG Comp for envisaged state-aid scheme aiming at arrears reduction, based on the prudent private seller test prepared by privatization consultant, by mid-June 2012;
- Negotiate with Ministry of Public Finance, Ministry of Internal Affairs and Ministry of Economy arrears cancellation schemes for (power plants and Oltchim-Electrica) by end-June 2012;
- Merge subsidiaries by end-June 2012, pending Court decision approving the procedure / resubmit merger documentation if Court rejects procedure;
- Continue to scrap and valorify 3000 depreciated cars by end-August 2012;
- Pre-qualify bidders for majority share of Marfa by mid-September 2012 and complete privatization by end-October 2012;
- Implement integrated system for assets and management remuneration by end-November 2012;
- Reinforce continuously efforts to collect outstanding invoices, including by giving notice on contracts and taking legal measures against companies with substantial arrears.

S.N. Transport Feroviar de Călători "CFR Călători" S.A.

- Provide report of pros and cons for potential merger of maintenance companies of Marfa and Calatori (Societatea Comercială Întreţinere şi Reparaţii Locomotive şi Utilaje "C.F.R. IRLU"-S.A and Societatea Comerciala de Reparaţii Locomotive C.F.R. SCRL Braşov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by mid-May 2012;

- Merge subsidiaries by end-June 2012, pending Court decision approving the procedure / resubmit merger documentation if Court rejects procedure;
- Sign contract with consultant to hire private management and board members by end-June-2012;
- Identify, together with the Ministry of Public Finance, possibilities to grant compensation amounting to 300 mil lei to balance the income and expenditure budget for 2012 by end-June 2012;
- Identify, together with the Ministry of Public Finance and the Competition Council financing possibilities for renewing and repairing old rolling stock by end-June 2012;
- Scrap and valorify 100 depreciated cars by end-December 2012;
- Begin implementing recommendations of consultant hired to evaluate the necessary services and related costs for achieving the minimum social package by mid-September 2012;
- Appoint new board members and private management by end-September 2012;
- For 2012, after the taking over of the subsidiaries, the number of personnel should not exceed the 2011 level;
- Increase 2012 revenues by 6 percent over 2011 from activities connected to public railway transport, in particular by renting all publicity spaces available;
- Implement a pilot plan on replacing REGIO trains in classical composition (locomotives and cars) by leasing EMU/DMUs by end 2012.

S.C. Metrorex S.A.

- Adopt new circulation schedules to bring transport capacity in line with market demand, by end-June 2012;
- Increase revenues by introducing 16 new metro trains into circulation starting early 2013;
- Consider tariff increase in conjunction with establishment of unified tariff structure with ground transportation agency;
- Include S.C. Metrorex S.A. in the list of potential beneficiaries of SOP – Transport 2014 – 2020 in order to use European Structural Funds.

C.N. de Autostrăzi si Drumuri Nationale din România S.A.

- Finalize and implement remaining 2 internal management control standards standards by end-June 2012;
- Increase revenues by extending information system for the toll system; contract for installation of 63 new fixed control points:
    - Sign the contract by end-June 2012;
    - Ensure that 50 percent of the fixed control points are functional by end-December 2012;
    - Finalize and take over the information system by end-March 2013.
- Quantify lost revenue from delay in implementing fixed control points and identify offsetting revenue or expense measures.

C.N. Tarom S.A.

- Redeliver the third Boeing B 737-800 leased-in aircraft (or reduce the rental rate at the level of the prices from the market) by end-June 2012;
- Monitor revenue and expenses related to operation of aircraft in the event that court in London rules that the aircraft cannot be redelivered and provide report on impact of aircraft on overall financial performance of fleet;
- Finalize amendment to contract with consultant, if possible within scope of current legal provisions, to incorporate a more in depth development of a restructuring program (measures regarding the routes and fleet structure and the organization design), and, based on consultant report, identify measures to be proposed for the Annex to the TMU, by mid-June 2012;
- Publish prospectus for privatization of at least a 20 percent stake via IPO by mid-June 2012, with view to conclude privatization by mid-July 2012;
- Appoint private management and board members shortly after conclusion of privatization;

  Reduce costs (e.g. by renegotiation of contracts, voluntary personnel reductions, discontinuation of selected lines and flights, by renegotiation of lease-in contract for flying staff, extending the saving oil consumption program);

  Increase revenues (e.g. by alternative sales strategies and optimizing pricing policies, developing strategy for additional lines to Eastern Europe in cooperation with Skyteam partners, resuming on-board sales and sale of TAROM branded products).

C.N. Poşta Română S.A.

- Hire legal and transaction advisor for capital increase by at least 20 percent by end-June 2012;
- Reduce staff by at least 300 employees by end-August 2012;
- Publish prospectus for capital increase of strategic investor by end-August 2012;
- Finalize capital increase by end-September 2012;
- Appoint private management and board members shortly after capital increase has been implemented in close cooperation with new shareholder.

S.C. Oltchim S.A.

- Approve share capital increase by mid-June 2012;Select new board members and new management by end-June 2012;
- Publish prospectus for privatization by end-July 2012, with view to conclude privatization by end-September 2012;
- Neither Oltchim nor the government will acquire the refinery in Arpechim prior to privatization.

C.N. a Huilei S.A

- Pay off credits related to non-viable mines, contingent upon receiving state aid, by end-May 2012;

- Create independent company for non-viable mines by end-June 2012;
- Merge viable mines with Electrocentrale Deva and Electrocentrale Paroseni to create Hunedoara by end-July 2012;
- Start CNH liquidation by end-September 2012.

S.C. Termoelectrica S.A., including S.C. Electrocentrale Paroseni S.A., S.C. Electrocentrale Deva S.A. and S.C. Electrocentrale Galati S.A.

- Submit to the trade register a legal proposal signed by Termoelectrica's Board, based on an instruction from the Ministery of Economy, for the separation of Braila and Galati and shareholdings in energy companies from Termoelectrica by mid-June 2012;
- Sign contract with consultant to hire CEO for Electrocentrale Galati by mid-June 2012;
- Merge Electrocentrale Deva and Electrocentrale Paroseni with viable mines from CNH to create Hunedoara by end-July 2012;
- Place remaining part of Termoelectrica into voluntary liquidation in early-September 2012;
- Appoint legal advisor for majority privatization of new energy company Hunedoara by end-August 2012; appoint transaction advisor for majority privatization by end-October 2012, with view to complete privatization by end-2012/early 2013.

S.C. Electrocentrale Bucuresti S.A.

- Continue exploring various strategies for clearing outstanding payments between Elcen Bucuresti and Radet Bucuresti and Radet Constanta, in conjunction with the Ministry of Economy and the municipalities of Bucharest and Constanta, even if this might imply a full waiver of penalties, by end-July 2012;
- Appoint transaction advisor by end-September 2012;
- Publish prospectus by end-November 2012, with view to conclude privatization by end-2012/early 2013.

SNa Lignitului Oltenia S.A. and S.C. Complexul Energetic Turceni S.A., S.C. Complexul Energetic Craiova S.A. and S.C. Complexul Energetic Rovinari S.A.

- Sign contract with consultant to hire private management of the new Complexul Energetic Oltenia by mid-May;
- Create new energy producer by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni and publish merger in Official Gazette by mid-May 2012;
- Select new board members by end-September 2012 and new management by end-October 2012;
- Appoint legal advisor for majority privatization of newly created company via IPO or to strategic investor by end-September 2012;
- Appoint transaction advisor by fall 2012;

- Publish prospectus for privatizations by late 2012, with view to conclude privatization offer by end-2012 or shortly thereafter;
- Continue reduction of underground operation of SNLO with aim to terminate it by end-March 2013.

S.C. Hidroelectrica S.A.

- Renegotiate bilateral contracts to market conditions, following announcement of EC investigation into contracts, by end-May, 2012. If conclusion not possible, cancel contract where legally permissible;
- Select new management team and board members by end-June 2012;
- Publish prospectus by end-June 2012; with view to conclude IPO by mid-October 2012.

S.C. Electrica S.A. including subsidiaries

- Keep remaining 3 distribution subsidiaries in separate companies as merging them could lead to competition restrictions;
- Select new management team and board members for Electrica Furnizare by end-June 2012;
- Appoint investment bank for privatizations of the five regional service companies by mid-June 2012;
- Publish prospectus for privatizations of the five regional service companies by mid-August 2012, with view to conclude privatization by end-October 2012;
- Sell shares in already-privatized electricity distribution and supply companies according to Electrica's strategy;
- Appoint legal advisor and transaction advisors for the majority sale of remaining parts of Electrica (including Electrica Furnizare and the three distribution companies) by end-October 2012 with a view to concluding the privatization by end-2012/early 2013;
- File for liquidation for all Electrica-Serv companies for which privatization failed immediately thereafter;
- Reduce personnel of Electrica in parallel to privatization of subsidiaries and own supply activity.