

## ROMANIA: TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

February 28, 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  $\text{RON } 4.2848 = \text{€}1$ , to the U.S. dollar at  $\text{RON } 3.2045 = \text{\$}1$ , to the Japanese yen at  $\text{RON } 3.9400 = \text{¥}100$ , and to the pound sterling at  $\text{RON } 4.9673 = \text{£}1$ , 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 entities *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)<sup>1</sup>**

	2010		2011				2011		2012		
	Dec. stock	Mar. actual	Jun. actual	Sep. actual	Dec. actual	Dec. Stock	Mar. PC	Jun. PC	Sep. indicat.	Dec. indicat.	
Cumulative change in NFA	20,026	119 <sup>2</sup>	1,896	293	-457 <sup>3</sup>	19,569	0	250	250	450	
<i>Memorandum</i>											
<i>Item:</i>											
Gross Foreign Assets	32,432	996	2,793	1206	464	32,897	0	250	-350	-1250	

<sup>1</sup>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.

<sup>2</sup> PC met with an adjustment for the WB disbursement of €300 million.

<sup>3</sup> PC met with an adjustment for the Eurobond issue of €1000 million.

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)**

	2011				2012			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Cumulative flows from end of 2010 under external program	1,200	1,650	2,050	2,050	2,050	2,050	2,050	2,050
Flows of external MOPF bond placement				1,000	1,150	1,350	0	0

**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. target	Jun. target	Sep. indicat.	Dec. indicat.
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	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

**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<sup>1</sup>

	(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 (performance criterion)	-3,100
End-June 2012 (performance criterion)	-6,800
End-September 2012 (indicative)	-8,500
End-December 2012 (indicative)	-12,210

<sup>1</sup> Cumulative figure during calendar year (e.g., March 2012 figure is cumulative from January 1, 2012).

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, 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.

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.

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-March 2012 and 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 PNFI) exceeds lei 6,970 million and lei 15,230 million, respectively, up to a limit of lei 1,800 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 non-financial 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.

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**Ceiling on new general government guarantees issued from end-2008 until:** (In billions of lei)

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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 (performance criterion)	14.0
End-June 2012 (performance criterion)	14.0
End-September 2012 (indicative)	14.0
End-December 2012 (indicative)	14.0

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**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).

<b>Stock of central government and social security arrears</b>	<b>(In billions of lei)</b>
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 (performance criterion)	0.08
End-June 2012 (performance criterion)	0.06
End-September 2012 (indicative)	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.

<b>Cumulative change in general government current primary expenditures<sup>1</sup></b>	<b>(In millions of lei)</b>
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 (indicative)	32,000
End-June 2012 (indicative)	64,800
End-September 2012 (indicative)	96,350
End-December 2012 (indicative)	130,850

<sup>1</sup> 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.

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

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<sup>1</sup> 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).

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<b>Stock in local government arrears</b>	<b>(In billions of lei)</b>
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 (indicative)	0.70
End-June 2012 (indicative)	0.50
End-September 2012 (indicative)	0.45
End-December 2012 (indicative)	0.30

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## J. Absorbition 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. Poșta 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:

<b>Floor on cumulative operating balance<sup>1,2</sup></b>	<b>(In billions of lei)</b>
End-December 2010 (actual)	-6.8
End-March 2011 (actual)	-0.7
End-June 2011 (actual)	-1.8
End-September 2011 (adjusted preliminary)	-2.4
End-December 2011 (adjusted preliminary)	-3.9

<sup>1</sup> Cumulative figure during calendar year (e.g., March 2011 figure is cumulative from January 1, 2011).

<sup>2</sup> 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. Hidroelectrică, S.C. Electrica S.A., C.N. Poșta Română S.A. The data shall be reported with operating results by firm. The targets will be as follows:

<b>Floor on cumulative operating balance<sup>1</sup></b>	<b>(In billions of lei)</b>
End-March 2012 (indicative)	-1.5
End-June 2012 (indicative)	-2.2
End-September 2012 (indicative)	-2.7
End-December 2012 (indicative)	-3.2

<sup>1</sup> Cumulative figure during calendar year (e.g., March 2012 figure is cumulative from



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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 ¶24. The data shall be reported at the firm level. Actual performance was as follows:

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<b>Ceiling on stock of arrears</b> <sup>1</sup>	(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 (adjusted preliminary)	18.5
End-December 2011 (adjusted preliminary)	14.7

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<sup>1</sup> 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 ¶25. The data shall be reported at the firm level. The targets will be as follows:

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<b>Ceiling on stock of arrears</b>	(In billions of lei)
End-March 2012 (indicative)	17.0
End-June 2012 (indicative)	15.0
End-September 2012 (indicative)	12.5
End-December 2012 (indicative)	9.0

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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 ¶21, at least for the following state-owned enterprises: i) C.N. Poșta Română S.A., ii) C.N. Tarom S.A., iii) S.C. Electricare CFR S.A., iv) SNa Lignitului Oltenia S.A./Complexul Energetic

Oltenia, v) S.C. Electrica Furnizare S.A., vi) S.C. Hidroelectrica, vii) C.N. Romarm aparat central, and viii) S.C. Oltchim S.A..

31. In addition, private management is envisaged in the course of 2012 for the following additional companies: i) C.N. Căi Ferate CFR S.A., ii) S.N. Transport Feroviar de Călători "CFR Călători" S.A., iii) SN Nuclearelectrica, iv) S.N. Transgaz, v) CN Transelectrica, vi) S.N. Romgaz and vi) C.N. Adm. Port. Maritim Constanta 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
<b>To be provided by the Ministry of Finance</b>	
Preliminary monthly data on general government accounts, including public enterprises as defined by ESA95	Monthly, on the 25 <sup>th</sup> day of the following month
Quarterly final data on project execution under the Program for National Infrastructure Development	Quarterly, on the 25 <sup>th</sup> day past the test date
Quarterly final data on general government accounts, including public enterprises as defined by ESA95	Quarterly cash data, on the 35 <sup>th</sup> day past the test date; Quarterly accrual data, on the 55 <sup>th</sup> 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 <i>banking sector</i> 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 <i>corporate sector</i> 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 <sup>1</sup>	Monthly, 15 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

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<sup>1</sup> 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.

- Revise the activity contract by end-February 2012;
- Develop ways to improve management of the real estate of the transport sector SOEs, possibly through the establishment of a special real estate company by end-March 2012;
- Reduce personnel by 28 positions that were originally with Interventii by end-March 2012;
- Reduce personnel and maintenance expenditures and reorganize and rationalize the sectioning points, starting April 1, 2012.
- Renegotiate the construction and rehabilitation agreement for the railway line Ramnicu Valcea- Valcele and Portile de Fier and identify a financing source, including the possibility of a state guarantee, by end April;
- Continue tendering process for public service obligations and infrastructure maintenance for 1,600 line kilometers of extended railway, bringing the total number of line kilometers under private management to 4,000 kilometers. Close all lines for which tenders failed, bringing network under management of CFR down to 15.500 line kilometers, by end-April 2012;
- Identify, together with the Ministry of Public Finance, possible compensation schemes for the debts to be collected from the National Health Insurance Agency in order to reduce arrears to the general government budget by end-April 2012;
- Develop a terms of reference for and contracting the consultancy services for the detailed analysis of the national railway network by end-April 2012;
- Use budgetary means and/or a state credit guarantee to reduce arrears to electricity suppliers by end-June 2012;
- Implement agreement between CFR-SA from Romania and Eurostation from the Belgium to set up a joint venture 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;
- Increase by 10 percent y/y rental revenue by end-December 2012;
- Appoint private management and board members in the course of 2012, if experience with private management in SOEs is positive;
- 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.

#### S.C. Electrificare CFR S.A.

- Appoint private management and board members by mid-2012;
- Continue the restructuring and modernization program, including a further reduction of 85 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.**

- Complete administrative formalities for subordinating SC Telecomunicatii S.A. under the Ministry of Transport and Infrastructure;
- Continue to elaborate legislation establishing the new framework for supplying telecommunication services within an integrated system.

### **S.N. de Transport Feroviar de Marfă “CFR Marfă” S.A.**

- Provide analysis of pros and cons for potential merger of maintenance companies of Marfa and Calatori (Societatea Comercială Întreținere și Reparații Locomotive și Utilaje “C.F.R. IRLU”-S.A and Societatea Comerciala de Reparații Locomotive C.F.R. SCRL Brașov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by mid-April 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 mid-March 2012;
- Send notification to DG Comp for envisaged state-aid scheme aiming at arrears reduction, based on the prudent private seller test, by in April 2012;
- Appoint privatization consultant for majority privatization to strategic investor by end-April (formerly structural benchmark for mid-February 2012);
- Identify, together with the Ministry of Public Finance, possible compensation schemes for the debts to be collected from the National Health Insurance Agency in order to reduce arrears to the general government budget by end-April 2012;
- Publish the shares selling announcement by mid-June 2012, with view to conclude privatization by end-October 2012;
- Scrap and valorify 3000 depreciated cars by end-August 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 analysis of pros and cons for potential merger of maintenance companies of Marfa and Calatori (Societatea Comercială Întreținere și Reparații Locomotive și Utilaje “C.F.R. IRLU”-S.A and Societatea Comerciala de Reparații Locomotive C.F.R. SCRL Brașov S.A.), to be directly owned by Ministry of Transport and Infrastructure, by mid-April 2012;
- Identify, together with the Ministry of Public Finance, possible compensation schemes for the debts to be collected from the National Health Insurance Agency in order to reduce arrears to the general government budget by end-April 2012;
- Contract a consultant to evaluate the necessary services and related costs for achieving the minimum social package by end-May 2012, with corresponding action to be taken immediately thereafter;
- 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 240 depreciated cars by end-June 2012;
- Identify, together with the Ministry of Public Finance, an arrears reduction scheme possibly amounting to 300 mil RON by end-June 2012;

- For 2012, after the taking over of the subsidiaries, the number of personnel should not exceed at 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;
- Appoint private management and board members in the course of 2012, if experience with private management in SOEs is positive.

#### **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;
- 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.**

- Customize internal management control standards: by end March 2012, 12 out of the necessary 25 standards will be finalized and implemented;
- Increase revenues by extending information system for the toll system; contract for installation of 63 new fixed control points:
  - Sign the contract by end April 2012;
  - Ensure that 50 percent of the fixed control points are functional by end October 2012;
  - Finalize and take over the information system by end January 2013.

#### **C.N. Tarom S.A.**

- Redeliver the third Boeing B 737-800 leased-in aircraft (or reducing the rental rate at the level of the prices from the market) by end-March 2012;
- Develop a restructuring program (measures regarding the routes and fleet structure and the organization design), based on the diagnosis of Roland Berger, and include measures to be proposed for the Annex to the TMU, by mid-April 2012;
- Publish prospectus for privatization of at least a 20 percent stake via IPO by end-May 2012, with view to conclude privatization by end-June 2012;
- Renegotiate the contract with Globeground to reduce ground-handling operations costs.
- 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. Poșta Română S.A.**

- Hire legal and transaction advisor for capital increase by at least 20 percent by end-March 2012;
- Reduce staff by at least 600 employees by end-March 2012;

- Reduce postal subunits from 5,835 at end-2011 to below 5,700 by end-April 2012;
- Publish prospectus for capital increase of strategic investor by end-May 2012;
- Finalize capital increase by end-June 2012;
- Implement installment plan for clearance of past tax arrears;
- Appoint private management and board members shortly after capital increase has been implemented in close cooperation with new shareholder.

#### **S.C. Oltchim S.A.**

- Select new management team and board members as soon as possible;
- Publish announcement for SPO by mid-March 2012, with view to conclude privatization around end-April 2012, contingent on DG Comp decision;
- Neither Oltchim nor the government will acquire the refinery in Arpechim prior to privatization.

#### **C.N. a Huilei S.A**

- Complete transfer to ANAF of non-viable parts of CNH by mid-February 2012. Create independent company for non-viable mines, within 90 days of decision by EC on state aid, for the purpose of closing the mines down in line with EU regulations;
- Offer viable mines in open and transparent tendering process shortly after decision by DG Comp on state aid;
- 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.**

- Use forced execution by ANAF for Electrocentrale Bucuresti by mid-February 2012 and put it under direct ownership of the Ministry of Economy;
- Use forced execution by ANAF for the subsidiaries Paroseni and Deva by mid-February 2012 and start forming the new energy company Hunedoara by merging these two companies;
- Extract remaining valuable assets of Termoelectrica via forced execution by ANAF or sell them and place the remaining part of the company into voluntary liquidation by end-February 2012;
- Put group 1 of Electrocentrale Deva of 210 MW into conservation by end-April 2012;
- Appoint legal advisor for majority privatization of new energy company Hunedoara by end-June 2012; appoint transaction advisor for majority privatization by end-August 2012, with view to complete privatization by end-2012.

#### **S.C. Electrocentrale Bucuresti S.A.**

- Complete forced execution by ANAF against Termoelectrica by mid-February 2012 and put it under direct ownership of the Ministry of Economy;
- Complete transfer of ownership of CTE Iernut to SNGN ROMGAZ SA in payment of arrears by end-March 2012;



- Develop strategy 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-March 2012;
- Appoint transaction advisor by end-August 2012;
- Publish prospectus by end-October 2012, with view to conclude privatization by end-2012.

**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 for merger of SNLO and the three energy complexes in Craiova, Rovinari and Turceni by end-February 2012;
- Appoint private management and board members as from the formation of the new Complexul Energetic Oltenia;
- Turceni: Reduce personnel by 80 (compared with end-2011) by end-March 2012;
- Create new energy producer by merging SNLO and the three energy complexes in Craiova, Rovinari and Turceni and publish merger in Official Gazette by end-April 2012;
- Appoint legal advisor for majority privatization of newly created company via IPO or to strategic investor by summer 2012;
- Appoint transaction advisor by summer 2012;
- Publish prospectus for privatizations by late 2012, with view to conclude privatization offer by end-2012 or shortly thereafter;
- Continuous reduction of underground operation of SNLO with aim to terminate it by end-March 2013.

**S.C. Hidroelectrica S.A.**

- Conclude renegotiation of bilateral contracts as permitted to market conditions by February 15, 2012. If conclusion not possible, cancel contract where legally permissible;
- Select new management team and board members by end-April 2012 to take office as soon as legally possible thereafter;
- Appoint investment bank for IPO by mid-February 2012;
- Publish prospectus by end-August 2012; with view to conclude IPO by end-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;
- Appoint legal advisor for majority privatization of regional Electrica-Serv companies via IPO or to strategic investor by mid-February 2012;
- Transfer the own supply activity of SC Electrica SA to SC Electrica Furnizare SA by the mid-March 2012;
- Appoint investment bank for privatization of all six new companies created by splitting Electrica Serv by end-April 2012;

- Appoint investment bank for all other privatizations, including majority privatization of SC Electrica Furnizare SA, by mid-June 2012;
- Publish prospectus for privatization of new Electrica Serv company active in the area of Transilvania Sud, Transilvania Nord and Muntenia Nord by end-May 2012, with view to conclude privatization by end-June 2012;
- Publish prospectus for all other privatizations by mid-August 2012, with view to conclude privatization by end-October 2012;
- 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.