

ENDORSED BY DIRECTORATE,

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NOTE

regarding approval to constitute reserves related to revenues achieved from the allocation of transmission capacity on interconnection lines in 2018, from the surplus of non-taxable and taxable revaluation reserves when destination is changed

I. Generalities

In accordance with the provisions of OMFP 881/2012 CNTEE Transelectrica SA is obliged, beginning with the financial year 2012, to apply the International Financial Reporting Standards (IFRS) when elaborating the individual (stand-alone) annual financial statements.

In the application of provisions from article 1 of OMFP 881/2012, OMFP 1286/2012 was issued approving the Accounting regulations complying with the International financial reporting standards, applicable to trading companies with securities admitted for transaction on a regulated market. OMFP 1286/2012 was cancelled and replaced by OMFP 2844/2016 approving the Accounting regulations complying with the International Financial Reporting Standards, with later amendments and additions.

According to IFRS, IAS 16 – Tangible assets, paragraph 41 “a part of the surplus can be transferred as the asset is used by the entity. In such a case the value of the transferred surplus could be the difference between the amortisement calculated using the revaluated accounting value of such asset and the amortised value calculated using the initial asset cost”.

In compliance with IFRS provisions and with Note 8919/2013, approved by the Company’s Directorate, CNTEE Transelectrica SA applies the capitalisation method for the revaluation surplus as the asset is being used, namely when registering the amortisement expenses related to the revaluation surplus.

The revaluation reserves surplus is registered as achieved as long as amortisement expenses are registered related to increasing revaluation values and does not represent a monetary item generating treasury flows, being determined only by a transfer operation from revaluation reserves into the retained result.

On 31 December 2018 the Company registered positive retained result from the revaluation reserve surplus amounting to **685.588.309 lei, of which:**

- Surplus in sum of **12,812,717 Lei** achieved from non-taxable revaluation reserves when their destination was changed;
- Surplus in sum of **672,775,592 Lei** achieved from taxable revaluation reserves when their destination was changed;

CNTEE Transelectrica SA carries out its activities of transmission system operator in accordance with the operational Licence 161/2000, granted by ANRE. Among the services the Company provides on the electricity market is the allocation of transmission capacity on the interconnection lines of the National Power System with the neighbouring power systems and the electricity transit under equal, transparent and non-discriminating conditions, by means of successive explicit annual, monthly, daily bids and during the same day (intraday).

Regulation (EC) 714/2009 and ANRE Order 53/2013 provide using the revenues from the allocation of interconnection capacities with a view to make network investments in order to maintain or increase interconnection capacities as follows:

- *Regulation (EC) 714/2009 of the European Parliament and Council of 13 July 2009 regarding the network access conditions for cross-border electricity exchanges and cancelling Regulation (EC) 1228/2003*

Article 16 para (6) - *All revenues resulting from the allocation of interconnections are used for the following purposes:*

- (a) Securing the actual availability of allocated capacities; and/or*
- (b) Maintaining or increasing the interconnection capacities by network investment, especially investments in new interconnections.*

- The provisions of Regulation (EC) 714/2009 of the European Parliament and Council of 13 July 2009 were taken over in the national legislation by *ANRE Order 53/2013 approving the Methodology establishing tariffs for electricity transmission services* which in article 22 para (4) provides as follows:

- *Revenues achieved from the allocation of transmission capacity on interconnection lines are predominantly used in accordance with the provisions of article 16 para (6) of Regulation (EC) 714/2009;*
- *Such revenues constitute financing source for investments to increase the interconnection capacity with neighbouring systems, which belong in the investment plan approved by the competent authority.*

II. Justification

In accordance with applicable accounting regulations, the revenues the Company collects from the allocation of interconnection capacities represent revenues obtained from services provided on the electricity market, being registered into revenue (analytically distinct) accounts, namely in the gross profit.

The net profit remaining after deducing the income tax is distributed to legal destinations in accordance with the provisions of OG 64/2001 on profit distribution in national societies, national companies and trading companies with full or majority state capital, and in autonomous regies, which provides in article 1 let. d) as profit distribution destination “Other law-provided distributions”.

In 2018 revenues amounting to **81,713,395 Lei** were achieved from the allocation of interconnection capacities. When determining the revenues to be distributed to „other law-provided distributions” a negative correction in sum of 17,494,640 Lei of the regulated revenue was taken into consideration, as correction element from the tariff interval 1 July 2016 - 30 June 2017 (positive correction in sum of

433,804 Lei) and from the tariff period 1 July 2017 - 30 June 2018 (negative correction in sum of 17,928,444 Lei), applied by ANRE when determining the average tariff of electricity transmission in the tariff interval 1 July 2018 - 30 June 2019.

Consequently the **sum of 17,494,640 Lei does not become financing source of investments into maintaining and/or increasing the cross-border interconnection capacity of Romania's electricity transmission network**, because this sum was used in the calculation of the transmission tariff as complementary source of the revenue obtained from transmission tariffs covering the regulated costs related to the tariff period 1 July 2018 - 30 June 2019, according to the Report *Data that ANRE took into consideration when calculating the tariffs approved for transmission and system services* transmitted by ANRE together with letter 51349/10.07.2018 (registered in CNTEE Transelectrica SA under no. 29081/10.07.2018).

Thus the revenues to be distributed to "Other law-provided distributions" amount to **64,218,755 Lei**, of which the related legal reserve (5%) is **3,210,938 Lei**, and the income tax (16%) amounted to **9,761,251 Lei**.

Under such circumstances the revenues achieved in 2018 from the allocation of interconnection capacities (sums net of the income tax and legal reserve) to be distributed for reserves in view of making network investments to maintain or increase interconnection capacities, according to Regulation (EC) 714/2009 and ANRE Order 53/2013, are in sum of **51,246,566 Lei** (64,218,755 Lei – 3,210,938 Lei – 9,761,251 Lei), according to the Annex.

Out of the sum of **51,246,566 Lei** the accounting profit of 2018 remaining after income tax deduction enables the distribution to "Other reserves" in order to make network investments to maintain or increase the interconnection capacities only **23,395,488 Lei, within the limits of net profit achieved**. For the reserve difference to constitute in sum of **27,851,078 Lei** (51,246,566 Lei – 23,395,488 Lei) we propose the following:

III. Proposals

In accordance with article 14, para (1) let. a) from the Articles of Association of CNTEE Transelectrica SA updated by AGEA Decision 14/09.11.2017 and based on article 22 para (4) of ANRE Order 53/2013, **the Shareholders' general assembly is submitted the approval for reserve constitution in sum of 27,851,078 Lei related to revenues achieved from the allocation of transmission capacity on interconnection lines by distribution from the retained result representing the surplus achieved from revaluation reserves as follows:**

- A sum of **12,812,717 Lei** (within the limit of the accounting balance registered on 31.12.2018) from the surplus achieved of non-taxable revaluation reserves when their destination was changed;
- A sum of **15,038,361 Lei** (27,851,078 Lei – 12,812,717 Lei) from the surplus achieved of taxable revaluation reserves when their destination was changed.

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Distribution of revenues achieved from the allocation of interconnection capacity in 2018,
to be distributed towards constituting financing sources of investments made to increase the interconnection capacity with neighbouring systems,
(sums net of income tax and legal reserve)

- lei -

No.	Revenues from the allocation of the interconnection capacity	Achieved - 2018	Deductions		Revenues achieved from the allocation of the interconnection capacity to be distributed for constitution of financing sources of investments made to increase the interconnection capacity with neighbouring systems (sums net of income tax and legal reserve)
			Legal reserve - 5%	Income tax - 16%	
0	1	2	3 = 2*5%	4 = (2-3)*16%	5 = 2-3-4
1	Revenues achieved from the allocation of interconnection capacity	81.113.395	4.085.670	12.420.436	64.607.289
2	Negative correction applied by ANRE to revenues from the allocation of interconnection capacities (ANRE letter 51349/10.07.2018)	17.494.640	874.732	2.659.185	13.960.723
3	Total (ln.1 - ln.2)	63.618.755	3.210.938	9.761.251	50.646.566

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