



Transelectrica®
Societate Administrată în Sistem Dualist

Compania Națională de Transport al Energiei Electrice
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NOTE

Regarding approval to constitute reserves related to the revenues achieved from the allocation of interconnection capacity on interconnection lines in 2019 from the surplus achieved from revaluation reserves non-taxable and taxable when their destination is changed

I. Generalities

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

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

In accordance with 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 transferred surplus might be the difference between the amortisement calculated using the asset’s revaluated accounting value and the amortisement amount calculated using the asset’s initial cost”.

In compliance with the provisions of IFRS and with Note 8919/2013, approved by the Company’s Directorate, **CNTEE Transelectrica SA applies capitalisation of surplus from revaluation as the asset is being used, namely when it is recording the amortisement expenses subject to the revaluation reserves.**

The surplus from revaluation reserves is registered as being achieved as amortisement expenses are recorded for the increase of revaluated values and it does not represent a monetary element generating cash flows, being determined only by a transfer operation from revaluation reserves into retained earnings.

On 31 December 2019 the Company registered **positive retained earnings from the surplus achieved with revaluation reserves** amounting to **699,291,897 Lei**, of which:

- Surplus achieved from **revaluation reserves non-taxable** when their destination is changed amounting to **24,317,669 Lei**;
- Surplus achieved from **revaluation reserves taxable** when their destination is changed amounting to **674,974,228 Lei**.

CNTEE Transelectrica SA performs as transmission and system operator in accordance with operational Licence 161/2000 granted by ANRE. Among the services the Company provides on the electricity market is also the allocation of interconnection capacities on the interconnection lines of the National Power System with neighbouring systems, with a view to carry out the import/export transactions and electricity transits under equal transparent non-discriminatory conditions by means of successive explicit annual, monthly, daily and within the same day (intraday) bids.

Regulation (EC) 714/2009 and ANRE Order 53/2013 provide utilisation of revenues from the allocation of interconnection capacities on interconnection lines in view of making network investments so as to maintain or increase such interconnection capacities as follows:

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

Article 16 para (6) – *All revenues ensuing from the allocation of interconnections are used to the following purposes:*

(a) Securing the actual availabilities of allocated capacities; and / or
(b) Maintaining or increasing the interconnection capacities by means of network investments, especially into new interconnections.

- The provisions of Regulation (EC) 714/2009 of the European Parliament and Council of 13 July 2009 were taken in the national legislation by ANRE Order 53/2013 approving the Methodology establishing tariffs for electricity transmission services, which provides in article 22 para (4) the following:
 - *Revenues obtained from the allocation of transmission capacity on interconnection lines are used predominantly in accordance with the provisions of article 16 para (6) of Regulation (EC) 714/2009;*
 - *Such revenues constitute financing source for investments in order to increase the interconnection capacity with neighbouring systems, which are integral part of the investment plan approved by the competent authority.*

II. Justification

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

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

In 2019 revenues were obtained from allocation of interconnection capacities amounting to **84,241,521 Lei**. When such revenues of 2019 from the allocation of interconnection capacities were distributed to “other law-provided distributions” a positive correction amounting to 11,575,635 Lei of the regulated revenue was taken into account as correction item coming from the tariff interval 1 July 2017 - 30 June 2018, applied by ANRE when determining the average electricity transmission tariff for the tariff period 1 July 2019 – 31 December 2019.

Consequently, the **amount of 11,575,635 Lei becomes source of investment financing to maintain or increase the cross-border interconnection capacity of Romania’s electricity transmission network.**

Thus the revenues to be distributed into “other law-provided distributions” amount to 95,817,156 Lei, and its (5%) legal reserve amounts to 4,790,858 Lei, while the associated profit tax (16%) is amounting to 14,564,208 Lei.

Under such circumstances the revenues achieved in 2019 from the allocation of interconnection capacities (amounts net of income tax and legal reserve) to be distributed towards constituting reserves with a view to make investments to maintain or increase the interconnection capacities according to Regulation (EC) 714/2009 and ANRE Order 53/2013, amounted to **76,462,090 Lei** (as per the annex).

Out of the 2019 accounting profit left after deducing the income tax the “Other reserves” was allotted only **38,924,731 Lei within the limits of the net profit achieved** which can be distributed to investments in order to maintain or increase interconnection capacities. For the reserve difference to be constituted amounting to **37,537,359 Lei** we propose as follows:

III. Proposals

In accordance with article 14, para (1) let. a) from the Articles of Association of CNTEE Transelectrica SA updated by AGEA Decision 3/06.03.2020 and based on article 22 para (4) of ANRE Order 53/2013, we **submit for approval of the Shareholders’ General Assembly to constitute reserves amounting to 37,537,359 Lei from the revenues achieved by allocating the transmission capacity on interconnection lines by distributing the retained earnings representing surplus from revaluation reserves as follows:**

- Out of the surplus achieved from **revaluation reserves non-taxable** when their destination is changed – **24,317,669 Lei** (within the limits of the accounting balance registered on 31.12.2019);
- Out of the surplus achieved from **revaluation reserves taxable** when their destination is changed – **13,219,690 Lei**.

DIRECTORATE

Chairman	Member	Member	Member	Member
Catalin NITU	Andreea-Mihaela MIU	Ionut-Bogdan GRECIA	Corneliu-Bogdan MARCUS	Adrian MOISE

Director, UEFA
Ana-Iuliana DINU

f. Manager, DC
Georgiana-Beatrice STEFAN – Head of BCC

ENDORSED,
Manager
Alina-Elena TEODORU

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Dan-Cristian-Filip
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