



**Transelectrica®**  
Societate Administrată în Sistem Dualist

**Compania Națională de Transport al Energiei Electrice**  
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## NOTE

### **Regarding approval by the Shareholders' General Assembly to distribute dividends from the retained earnings on balance on 31.12.2019 depending on the existent availability in Company's accounts**

In accordance with article 14, para (1) let. b) from the Articles of Association of CNTEE Transelectrica SA updated by AGEA Decision 3/06.03.2020, **we submit to the approval of the Shareholders' General Assembly the distribution of dividends from retained earnings**, taking into account the following issues:

The accounting profit remaining after deduction of income tax on 31 December 2019 was distributed in accordance with the applicable legislative provisions, namely:

- ❖ OG 64/2001, with later amendments and additions, regarding profit distribution in national societies, national companies and independent authorities, approved with amendments by Law 769/2001;
- ❖ Law 227/2015 on the Fiscal Code, with later amendments and additions;
- ❖ Regulation (EC) 714/2009 of the European Parliament and Council of 13 July 2009 on the network access for cross-border electricity exchanges and cancelling Regulation (EC) 1228/2003;
- ❖ ANRE Order 53/2013, with later amendments and additions, approving the Methodology establishing tariffs for electricity transmission services;

Thus the 2019 accounting profit remaining after deduction of income tax was distributed to the following destinations:

1) – **Legal reserve amounting to RON 5,354,023**, determined at 5% according to the provisions of article 26 para (1) let. a) of Law 227/2015 on the Fiscal Code, with later amendments and additions and **distributed according to the provisions of article 1, para 1. let. a) of OG 64/2001**, regarding profit distribution in national societies, national companies and independent authorities, with later amendments and additions;

2) - **Other reserves representing law-provided fiscal facilities amounting to RON 51,752,203**, represented by payment exemption of reinvested profit in accordance with the provisions of article 22 from Law 227/2015 on the Fiscal Code, with later amendments and additions and **distributed according to the provisions of article 1, para 1 let. c) of OG 64/2001** regarding profit distribution in national societies, national companies and independent authorities, with later amendments and additions;

3) – **Other law-provided distributions amounting to RON 38,924,731**, representing a part of the 2018 revenues from the allocation of interconnection capacities (net amounts exempted from profit tax and legal reserve), **partial within the net profit limit, distributed according to the provisions of article 1, para 1 let. d) of OG 64/2001**, corroborated with the provisions of Regulation (EC) 714/2009 and ANRE Order 53/2013 providing utilisation of revenues from the allocation of interconnection capacities to making network investments in order to maintain or increase the interconnection capacities.

**After distributing the accounting profit provided in article 1 para 2 of OG 64/2001 "Profit is distributed towards the destinations and into the quantum provided in para 1 let. e), f) and g), after deduction of amounts related to the destinations established under special norms provided in let a), b) ,c) and d) of the same paragraph, there was no profit left to distribute to other reserves to constitute one's own source of finance or to be later redistributed as dividends.**

On 30 March 2017 **OUG 29/2017** came in force amending article 1 para (1) let. g) from Governmental Ordinance 64/2001 regarding profit distribution in national societies, national companies and independent authorities and also amending article 1 para (2) and (3) of Governmental Emergency Ordinance 109/2011 on the corporative governance of public enterprises **that contains, among others, the following provisions:**

- a) The amounts distributed in previous years to other reserves, existent when the ordinance became valid can be redistributed as dividends beginning with the approval of the 2016 financial statements.
- b) **As of the approval of 2016 financial statements**, the **retained earnings** existent on balance on 31 December of each year **can be distributed as dividends**, provisions applicable also for the retained earnings reflected in the 2016 financial statements.

However mention should be made any amount distributed as dividends under such operation will mean the Company needs to contract new financing, to the same quantum, with a view to restore the funding sources of strategic investment projects approved in 2016 under the 10 Years' Development Plan by ANRE and the Ministry of Economy.

**Thus consideration was given to the following:**

**a. The financial implications of the regulatory framework – transmission tariffs and the tariff for technological system services**

**Transmission services:** transmission tariffs are regulated under multi-annual cycles of 5 years. In a 5 year cycle the tariff's main coordinates are established beforehand (e.g.: operational and maintenance costs required for the best operation of the transmission grid, investments to upgrade and extend the existing transmission infrastructure, the quantity of electricity carried through the network). Such coordinates become calculation items for the regulated revenues and unit tariff for each one of the 5 years in the regulatory cycle.

Since electricity transmission activities are quite constant in volumes, the revenues provided under the tariff-setting methodology are uniformed at the level of 5 years, even if the investment efforts are different. Consequently, the mathematical method applied to linearize the revenues within the 5 years' regulatory cycle requires the basic revenues meant to sustain the major investment efforts planned in the last 2 tariff years of the current regulatory cycle (about 2/3 of the total value of such 5 years' investment plan is focussed in the last 2 years) to be brought ahead in the first years, by redistribution and reallocation.

In other words the linearization applied **caused an asymmetry** between the higher financing needs of the investments planned in the last 2 years of the regulatory cycle and the revenue provided by transmission tariffs. The profile of such regulated revenue is quite opposite the profile of investment efforts, and liquidity reserves gathered in the first 3 years of the current regulatory cycle (01.07.2014-30.06.2017), obtained by achieving greater profits than the regulated ones had to sustain the revenue deficit of the last 2 years of the regulatory period (01.07.2017-30.06.2019).

The higher profit obtained in the first three years of the regulatory cycle was distributed (each year) to reserves in order to constitute financing sources for investments, not to consider possible redistribution as dividends at a future moment.

Investment obligations are and have been assumed under the investment plan approved by ANRE, most of them are contracted or under contracting. In case the Company's own sources (funds from the reserve accounts) can no longer be used for investments because they are turned to dividends, the only solution is to commit new financing as soon as possible, in order to properly compensate what is no longer available after such redistribution.

**System services:** besides electricity transmission Transelectrica is also answerable to maintain the generation-consumption balance overall in the National Power System (SEN). To this effect the Company procures technological system services from qualified electricity producers, more exactly it reserves a proper generation capacity amount from them. In exchange for reserving such generation capacity Transelectrica pays the respective producers prices established freely by competitive mechanisms (auctions). Such payments are covered from a dedicated regulated tariff approved annually by ANRE based on payment forecasts, with later regularisation of possible excess / deficits by adjusting the regulated tariff of next years.

Transelectrica cumulated in the last 3 years a substantial revenue surplus (about + RON 100 million) compared to the actual costs of system services procured from producers. To compensate such surplus

obtained, on 01.07.2017 ANRE reduced accordingly the regulated tariff cashed by Transelectrica. Thus in the 12 months that began on 01.07.2017 a finance deficit occurred for the procurement of system services, since the revenue the Company achieved from regulated tariffs will not be enough to cover fully the procurement cost of necessary system services.

In addition to the deficit caused by tariff reduction, market conditions got significantly worse and prices paid by Transelectrica to procure system services increased highly. Thus the procurement of such services of critical importance for the safe operation of SEN is burdening greatly the liquidities of Transelectrica, especially during winter.

**b. Analysis of the applicable legal framework**

In accordance with the provisions of applicable legislation, **only the shareholders of CNTEE Transelectrica have prerogatives to pass a decision by AGA pertaining to the distribution of a monetary amount as dividends, provided such sum falls in accounting terms into the “Other reserves” and “Retained earnings” accounts. An AGA decision should concretely establish the accurate amount to be distributed as dividends (the Romanian State is to actually collect about 58.59% thereof, in proportion to the share package it holds).**

When the AGA decision has been taken to distribute any amount as dividends the Company becomes the holder of a certain liquid eligible payment obligation on the date specified therein.

To comply with such obligation the necessary monetary amounts should be concretely available in cash in the Company's account.

The regulatory framework governing the determination and payment of dividends is in the Company Law 31/1990. Thus article 67 of Law 31/1990 defines dividends as a quota from profit. The procedure determining it is provided in article 67 para (2) corroborated with article 111 of Law 31/1990 and stipulates the Shareholders' General Ordinary Assembly is competent to set the dividend.

In case of public enterprises, profit distribution is established by OG 64/2001 regarding profit distribution in national societies, national companies and trading companies with full or majority state capital, as well as independent authorities.

On 30 March 2017 OUG 29/2017 came in force amending article 1 para (1) let. g) from Governmental Ordinance 64/2001 regarding profit distribution in national societies, national companies and independent authorities and also amending article 1 para (2) and (3) of Governmental Emergency Ordinance 109/2011 on the corporative governance of public enterprises that contains among others that **“beginning with the approval of 2016 financial statements, the retained earnings existent on balance on 31 December of each year can be distributed as dividends, provisions applicable also for the retained earnings reflected in the 2016 financial statements”.**

**In conclusion the shareholders of a public enterprise have the discretionary right to establish for the “Other reserves” and “Retained earnings” accounts to be redistributed as dividends and shareholders can take such decision during AGA.**

**c. Situation of other reserves and of retained earnings on 31.12.2019**

The following table provides the balance of reserves available for Transelectrica (amortisement, non-reimbursable funds, connection fee, and loans) to finance the Company's achieved / planned investments and the balance of the retained earning account.

			RON
Accounting account	Constituted reserves / account name	Legal base to constitute reserves	Balance on 31.12.2019
1068.01.01	One's own financing sources constituted from profit	OG 64/2001, article 1 let. g) constituting to finance Company investments from own sources	-

1068.01.02	Other financing sources - the revenues from allocation of interconnection capacities	Provisions of Regulation (EE) 714/and of ANRE Order 53/2013 in view of making network investments to maintain or increase interconnection capacities	18,720,963
1068.03	Development fund	(Order 54/1997)	135
1068.04	One's own funds to increase the share capital	HG 834/1991 and HG 107/30.01.2008- value of lands ownership certificates were obtained for that will increase the Company's share capital	3,282,857
1068.05	Other funds	Provisions of fiscal legislation	108,420
1068.07	One's own financing sources from fiscal facilities, from export operations	Provisions of fiscal legislation	81,846
1068.08	One's own financing sources from fiscal facilities, from exchange rate differences	Provisions of fiscal legislation	119,711
1068.09	One's own financing sources from fiscal facilities, from accelerated amortisement	Provisions of fiscal legislation	757,083
1068.10	One's own financing sources from fiscal facilities - reductions or exemptions of delay penalties	Provisions of fiscal legislation	23,915
1068.12	Share premiums	Constitution on the date of the Primary Initial Public Offer to Sell Company Shares	49,842,552
1068.14	Reserves from reinvested profit	Provisions of fiscal legislation	171,229,243
1068.15	One's own financing sources revenues from the allocation of constituted interconnection capacity	Provisions of Regulation (EE) 714/and of ANRE Order 53/2013 in view of making network investments to maintain or increase interconnection capacities	317,609,935
	<b>TOTAL "Other reserves"</b>		<b>561,776,660</b>

Table 1 Situation of other reserves

The amount corresponding to retained earnings (ct. 117) on 31.12.2019 was of 699,291,897 RON and is provided in the table below:

Accounting account	Account name	Balance on 31.12.2019
1175	Retained earnings representing surplus from revaluation reserves, of which:	699,291,897
<b>1175.01</b>	surplus from revaluation reserves - taxable when changing the destination	674,974,228
1175.02	surplus from revaluation reserves - non-taxable when changing its destination	24,317,669
	<b>TOTAL "Retained earnings"</b>	<b>699,291,897</b>

Table 2 Situation of retained earnings

The retained earnings the Company registered on 31 December 2019 is determined by applying the provisions of OMFP 881/2012 regarding application by the trading companies whose securities are admitted for transaction on a regulated market of the International Financial Reporting Standards, as well as by applying the provisions of the International Accounting Standard IAS 16 - Tangible assets, paragraph 41 "a part of surplus can be transferred, as the asset is used by the entity.

In this case the value of transferred surplus can be the difference between the amortisement calculated using the revaluated value of the asset and the amortised value calculated using the initial asset cost".

#### d. **Financial analysis of monetary availabilities**

The detailed situation of cash flow accounts of Transelectrica on 31.12.2019 is found in the table below.

<b>Detalii cont</b>	31.12.2019	Explicatii
<b>cont 5121 total, din care:</b>	<b>175,016,610</b>	
disponibilitati banesti la dispozitia Companiei	101,497,044	disponibil
schema de sprijin ptr. cogenerare	-	restrictionat
piata de echilibrare	30,763,889	restrictionat
tarif de racordare	14,967,097	restrictionat
alocare capacitate de interconexiune	12,217,359	restrictionat
garantii aferente contractelor pe pietele de energie si gestionari	15,020,795	restrictionat
dividende si salarii	550,426	restrictionat
<b>cont 5081 total, din care:</b>	<b>187,285,469</b>	
disponibilitati banesti la dispozitia Companiei	42,285,469	disponibil
schema de sprijin ptr. cogenerare	-	restrictionat
alocare capacitate de interconexiune	145,000,000	restrictionat
<b>cont 5124 - disponibilitati banesti la dispozitia Companiei</b>	<b>43,347,233</b>	
disponibilitati banesti la dispozitia Companiei	10,775,293	disponibil
cuplare piete	20,602,092	restrictionat
fonduri europene	11,969,848	restrictionat
<b>Total disponibilitati banesti, din care:</b>	<b>405,649,313</b>	

Table 3 Situation of monetary availabilities

The restricted cash represents amounts found in transit in Transelectrica's accounts for its capacity of administrator of the scheme, operator or following activities ensuing from secondary legislation. Consequently Transelectrica cannot change the destination of such funds, but only to manage them (input – output).

Mention should be made that profits higher than the regulated level, as described in the proper chapter of the regulatory framework are recovered by ANRE by subsequent reductions of the transmission tariff, which might impact the constraints required by financial indicators (covenants) included in the Company's financing contracts, as well as possible future funding.

Thus in accordance with the circumstances provided in detail above, on 31.12.2019 the Company's cash accounts were as follows:

**Total Company cash: RON 405,649,313, out of which:**

- Available cash RON 154,557,807
- Restricted cash RON 251,091,506

Out of RON 154,557,807 available cash the Company has current payment obligations to provide current capital to operational activities (salaries, utilities, rents, maintenance etc.), investments in progress and a possible capital increase of subsidiary SMART SA amounting to RON 24,000,000.

**Conclusion:**

Considering the above, the amount that can be distributed as a dividend from the surplus of revaluation reserves and taxable when their destination is changed is 35,185,508 lei.

Pursuant to article 14, para. (1) let. b) of CNTEE Transelectrica SA Articles of Association, updated by the Decision of Extraordinary General Meeting of Shareholders no. 03 / 06.03.2020, we submit to the approval of the General Meeting of Shareholders (GMS) the distribution of dividends in amount of RON 35,185,508 from the balance of the account 1175.01, "retained earnings", respectively, approval to distribute gross dividend of 0.48 ron/share for all shareholders registered on the date of registration of June 4, 2020, ex-dates June 3, 2020. The payment begins on June 25, 2020.

The details of the payment procedure will be made available to public investor, after the approval by the GMS from 28 / 29.04.2020, through a release disseminated through the capital market institutions, in a

national newspaper and published on the website [www.transelectrica.ro](http://www.transelectrica.ro), Investors Relations section / Shares / Dividend.

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