APPROVED,
Board of Directors
President
Iulian Robert Tudorache

Notification regarding the implementation of the requests formulated in the meeting of the General Assembly of Shareholders of April 25, 2018

At the meeting of the General Assembly of Shareholders that took place on April 25, 2018, for sections 2 and 3 on the agenda, regarding the approval of the audited individual financial statements and the approval of the audited consolidated financial statements, the representative of the majority shareholder, the Ministry of Energy, asked the Board of Directors of S.N. Nuclearelectrica S.A. to pass the necessary measures for clarifying/resolving the aspects shown by the independent auditor in the report on the individual and consolidate financial statements of 2017.

For this purpose, we hereby submit the following information:

1. S.N. Nuclearelectrica S.A. ("SNN") drafts financial statements according to the International Financial reporting standards adopted by the European Union ("IFRS - EU") as of 2013;
2. The bases of the qualified opinion expressed by the financial auditor in the audit report related to financial year 2017 are found in all the audit opinions related to the IFRS financial statements prior to 2017 (prior to 2013, SNN drafted financial statements according to IFRS as follows: individual financial statements as of 1998 and financial statements as of 2011);
3. In the audit report regarding the Financial Statements, there is one basis of the qualified opinion, and it is based on the following historical premises:
    a. SNN has registered under the "Assets in progress" heading the accounting value related to Units 3 and 4 CNE Cernavoda at a cost of approximately 274 million RON, consisting of capitalized expenses items related to Units 3 and 4 CNE;
    b. Before 1991, units 1, 2, 3, 4 and 5 were considered a single investment project, which is why the construction costs incurred by that date were not allocated at the level of each nuclear unit, but cumulated by considering a single Project (Units 1-5);
    c. Subsequently, SNN performed an allocation of construction costs for Units 3 and 4, in order to determine their costs, but without the possibility of implementing a complete allocation, considering the manner of recording expenses in the accounting documents from the beginning of the project, namely before 1991;

    d. The auditor could not obtain sufficient and adequate audit proof regarding the accuracy of allocating the costs related to Units 3 and 4, which affects the valuation of these assets.

4. The accounting policies of SNN provide that the assets in progress must be reflected in the cost-based model, according to the IAS standard 16, paragraph 29.

Under such conditions, the auditor could not identify whether adjustments are necessary for the tangible assets, the debt on the deferred tax and the result reported as of 31.12.2017, following the accounting value of Units 3 and 4 reflected in the financial position of Nuclearelectrica SA, thus expressing reservations regarding this aspect reflected in the financial statements.

A solution for eliminating these reservations, identified within the consultations with the financial auditors, is the modification of the accounting policies of SNN on reflecting the assets for Units 3 and 4 (assets in progress) in a distinct group of assets and the application of the revaluation model to be reflected in the financial statements according to standard IAS 16 paragraph 30. In such a situation, an independent revaluation performed with sufficient regularity would constitute a reasonable basis for reflecting these assets in the financial assets, related to an allocated cost, and would eliminate the inherent limitations within the auditing process, leading to the elimination of this basis of issuing a qualified opinion.

We did not deem as useful to modify the accounting policies regarding the assets designed for Units 3 and 4, at least because of the following reasons:

1. These assets are not operational, as they are assets in progress; the normal policies for reflecting assets in progress are at cost, as until the completion (as they are in progress), these assets do not cause economic benefits, but only are expected to do so after the commissioning;
2. An independent appraisal of these assets made by an independent appraiser would have as an objective to set the fair value defined by IFRS 13 (Fair value appraisal) which contains the definition: “Fair value is the price that would be collected for selling an asset or paid for transferring a debt in a transaction regulated between market participants, on the valuation date.

   The appraisal standard issued by ANEVAR SEV 300 Appraisals for financial statements, used by the appraisers, provides in paragraph G2: “The comment from IFRS 13, and especially regarding the market participants, in a normal transaction, a transaction which takes place on the main market or on the most advantageous market and for the best use of an asset, clearly shows the fact that the fair value, according to IFRS, is generally consistent with the arm’s length principle, as defined and commented in SEC 100 General framework”. Moreover, IVSB (International Valuation Standard Board) generally considers the definition of fair value from IFRS as consistent with the definition of fair value from the valuation standards.

   In our case, for U3 and U4 we cannot identify the existence of a trading market for such assets in progress and under these conditions the application of the “revaluation” treatment from the provisions of IAS 16 paragraph 30 becomes inoperable.

The company applies the cost method according to the provisions of IAS 16 paragraph 29, as a method for valuating the tangible assets in progress, a fact that is reflected in the accounting policies passed by SN Nuclearelectrica SA.

3. On 15.11.2015, SN Nuclearelectrica SA and China General Nuclear Power Corporation (CGN) signed the Memorandum of Understanding for the development, construction, operation and decommissioning of Units 3 and 4 from CNE Cernavoda ("MoU"). Pursuant to art. 5 of MoU, the valuation of the assets of SNN and of the Romanian State that will represent the in-kind contribution to the Project Company according to the Project Continuation Strategy (approved by the Romanian Government in July 2014) will be implemented according to the Romanian legislation and the international valuation standards and/or related to the market conditions. Currently, negotiations are underway with CGN regarding the Investment Documents - Investors' Agreement and the Articles of Incorporation of the future Project Company.

As shown above, the inherent limitations regarding the allocation of historical costs for Units 3 and 4 originate in 1991, and these inherent limitations constituted the base of the qualified opinion for all the audit opinions expressed by various financial auditors of SNN, for the IFRS financial statements starting with 1998.

We believe that these limitations will cease to exist after the completion of the negotiations related to the completion of Units 3 and 4 and that the opportune moment for eliminating the qualified opinion issued by the independent auditor represents the completion of the negotiations.

Cosmin Ghita
General Manager

Adrian Gabriel Dumitriu
Financial Manager