



**APPROVED,**  
**Board of Directors**  
**Chairman**  
**Iulian Robert Tudorache**

**Notification regarding the opinion with reservations expressed by independent financial auditor Mazars Romania S.R.L., in the audit reports on the Individual and Consolidated Financial Statements concluded on December 31, 2019**

By letter no. 201574/10.04.2020, registered with S.N. Nuclearelectrica S.A. (“SNN”) under no. 5087/13.04.2020, majority shareholder the Ministry of Economy, Energy and Business Environment (“MEEBE”) asked the Board of Directors of SNN to express a point of view regarding the opinion with reservations of independent financial auditor Mazars Romania S.R.L., on the Individual and Consolidated Financial Statements concluded on December 31, 2019.

For this purpose, we present the following information:

1. SNN drafts financial statements according to the International Financial Reporting Standards adopted by the European Union (“IFRS - EU”) as of 2013;
2. The grounds for the opinion with reservation expressed by the financial auditor in the audit reports related to financial year 2019 are found in all the audit opinions related to the IFRS financial statements prior to 2019 (prior to 2013, SNN drafted financial statements according to IFRS as follows: individual financial statements as of 1998, and consolidated financial statements as of 2011);
3. In the audit reports, there is one basis of the opinion with reservations, and this is due to the following historical premises:
  - a. SNN has registered in “Assets in progress” the accounting value related to Units 3 and 4 of Cernavoda NPP at a cost of approximately 274 million RON, consisting of capitalized expenses items related to Units 3 and 4 of Cernavoda NPP.
  - b. Before 1991, units 1, 2, 3, 4 and 5 were considered a single investment project and that is why the construction costs incurred until that date were not allocated on the level of each nuclear unit, but in a cumulated manner, by considering a single Project (Units 1-5).
  - c. Subsequently, SNN performed an allocation of the construction costs for Units 3 and 4, in order to determine their cost, but without the possibility of implementing a complete

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allocation, considering the manner of accounting expenses 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 assets in progress must be reflected in the cost-based model, according to the IAS standard 16 paragraph 30.

Under these conditions, the auditor could not identify whether adjustments were necessary for tangible assets, the debt on the deferred tax and the result reported as of 31.12.2019, following the accounting value related to Units 3 and 4 reflected in the financial position, thus expressing reservations regarding this aspect reflected in the individual and consolidated 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 31. 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 an opinion with reserves.

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 valuation of these assets made by an independent valuator would have as an objective to set the fair value defined by IFRS 13 (Fair-value valuation) which contains the following 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 valuation standard issued by ANEVAR "SEV 300 Financial reporting valuations", used by the valutors, provides in paragraph G2: "The comment from IFRS 13, and especially the references to market participants, in a normal transaction, a transaction that 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 fair value, according to IFRS, complies, in general, with the arm's length principle, as defined and commented in SEV 100 General framework". Moreover, International Valuation Standard Board ("IVSB") 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 Units 3 and 4, 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 31 becomes inoperable.

SNN applies the cost method according to the provisions of IAS 16 paragraph 30, as a method for valuating the tangible assets in progress, a fact that is reflected in the accounting policies adopted by the company.

3. Based on the Strategy for continuing the Project for Units 3 and 4 of Cernavoda NPP from 2014, updated in 2018 (“Strategy”), approved by the Government of Romania, by a Memorandum, and by the General Assembly of Shareholders of SNN, S.N. Nuclearelectrica S.A. and China General Nuclear Power Corporation (the selected investor) signed, in 2015, the Memorandum of Understanding on developing, building, operating and decommissioning Units 3 and 4 of Cernavoda NPP (“MoU”), which provides the fact that the valuation of the assets of SNN and of the Romanian State which will represent the in-kind contribution to the Project Company, according to the Strategy, will be performed according to the legislation from Romania and the international valuation standards and/or compared to the market conditions. Subsequently, in May 2018, SNN and CGN signed the Investor Agreement in a preliminary form, which stipulates the incorporation of the project company (“JVCO”) with the sole purpose of being the only technical and operational platform for the subsequent development of the Project. Given the necessity of calibrating activities on the level of companies with the dynamics of intergovernmental progress, the project company was not incorporated.

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

We consider 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 opinion with reservations issued by the independent financial auditor is the completion of the negotiations and the issuance of the investment resolution.

Respectfully yours,

**Cosmin Ghita**  
**Chief Executive Officer**

**Paul Ichim**  
**Chief Financial Officer**