



APPROVED,

No. 10636/September 8th, 2020

Chairman of the Board of Directors

Teodor Chirica

Note concerning the submission for approval to the Extraordinary General Meeting of Shareholders, of the setting-up, by S.N. Nuclearelectrica S.A., of a branch in view of internalizing certain services and making savings in terms of company costs

I. Context

In compliance with the provisions of Art. (13) letter c) of Law no. 672/2002 on public internal audit, republished, as subsequently amended, of Government Decision no. 1086/2013 approving the General Rules on the Exercise of the Public Internal Audit Activity and the Annual Internal Audit Plan, as of April 6th, 2020, an ad-hoc formal advisory mission was carried out, at the request of the General Manager of the National Company Nuclearelectrica S.A. ("SNN" or the "Company"), with regard to the analysis and identification of activities having the potential to be internalized, as well as the drawing-up of business plans in view of simulating and making financial forecasts.

The field of analysis of the advisory mission audit consisted in the analysis and identification of services / business which, if internalized, might lead to reductions in the operating costs and to synergies for SNN with a view to setting up an affiliated entity to take over the performance of some activities.

The main goals of the public internal audit mission consisted in:

- a.) Identification of contracts concluded by SNN that are of high value and have a potential for internalization.
- b.) Financial analysis of the contracts identified, with a focus on their capacity to generate profit and liquidity.
- c.) Preparation of business plans for the services analyzed with a high potential for cost reduction for SNN

As a result of the analysis performed, the following **conclusions** are drawn:

- The takeover of certain activities carried out by suppliers has a number of benefits: development of knowledge and expertise of employees in order to keep them within the organization in view of improving the capacity to quickly respond to changes in the business environment, increase of quality and safety through a motivated personnel, better control over costs and reduction of dependence on suppliers, protection of information and know-how.
- SNN has outsourced a number of internal processes. Some of them were analyzed in view of

National Company NUCLEARELECTRICA S.A.

65 Polona Street, District 1, 010494, Bucharest, Romania; Tel. +4021 203 82 00, Fax +4021 316 94 00;

Registration number with the Trade Register: J40/7403/1998, Sole Registration Code: 10874881,

Subscribed and paid-up share capital: RON 3,012,210,410

office@nuclearelectrica.ro, www.nuclearelectrica.ro



assessing the opportunity for internalization: handling of products in the warehouses of the Nuclear Power Plant (CNE), assembly - disassembly and rental of scaffolding at CNE, cleaning and decontamination services for U1 and U2 of CNE, and management of radioactive waste, as well as the electrical and mechanical maintenance of CNE.

Following the analysis, it resulted that, if the process of management of radioactive waste were internalized, it would have high efficiency and would require a minimum of human resources, thus being easily manageable, and providing considerable savings for SNN. Therefore, a proposition is made to internalize this process, by setting up a new company in which SNN would be the majority shareholder, following that, in the future, this company will gradually take over other services analyzed by the advisory mission: cleaning services, handling services in the warehouses of CNE, maintenance services for control systems and ventilation mechanics at CNE.

The new company will be of the limited liability company type, in which SNN will be a sole shareholder. If, in the future, admission to trading on the Bucharest Stock Exchange (Aero platform) will be decided on, the legal form of the company may be changed through the sole shareholder's resolution.

II. Legal aspects

Legal form

As regards the legal form of the new company, the joint-stock company form and limited liability company form were analyzed. Following the analysis, considering that, unlike the joint-stock company for which the applicable legal framework establishes a minimum number of 2 shareholders, in the case of a limited liability company, it is possible to have a sole shareholder, it is recommended that the newly established company should have the legal form of limited liability company.

The legal form proposed for the newly established company is that of limited liability company, in which SNN would be the sole shareholder.

Aspects relating to the enforceability of the provisions of Government Emergency Ordinance (GEO) 109/2011 on the corporate governance of public enterprises

Within the meaning of GEO no. 109/2011, more specifically of Art. (2) point 2 letter c, **the companies in which one or more of the public enterprises provided for in letters a) and b)¹ hold a majority shareholding or a controlling interest** are considered to be public enterprises and, therefore, are subject to the special provisions of GEO no. 109/2011.

GEO no. 109/2011 expressly provides in Art. (25) for the fact that the organization and operation of public companies/enterprises that are mentioned in Art. (2) point 2 letters b) and c) are regulated by the

¹ a) autonomous administrations set up by the state or by an administrative-territorial unit; b) companies and national companies, enterprises in which the state or an administrative-territorial unit is the sole shareholder, majority shareholder or in which it holds control;



Corporate Governance Law and, in cases not covered by this law, by the provisions of Law no. 31/1990, as well as by the provisions of the Civil Code.

Limited liability companies, including limited liability companies with a sole shareholder, may also hold the status of public companies/enterprises. In terms of the applicable legal framework, these companies too, just like joint-stock companies, will be governed by the Corporate Governance Law and, in cases not covered by this law, they will fall under the provisions of Law no. 31/1990, as well as the provisions of the Civil Code.

It should be noted, however, that, by derogation from the provisions of GEO no. 109/2011 regarding the procedure for appointment of the members of the management bodies, in the case of such companies (limited liability companies), Art. (60) par. 2 of GEO no. 109/2011 provides that, ***in the case of companies set up according to Law no. 31/1990, as subsequently amended and supplemented, which are not organized as joint-stock companies, the number of directors and the procedure for selecting them, as well as the creation of directors' committees, are established by the public guardianship authority through the Articles of Incorporation of the companies concerned.*** In fact, in the case of these companies, the procedures put in place by the corporate governance law may be simpler than in the case of joint-stock companies.

With regard to the **public guardianship authority**, Art. (2) point 3 letter c) of GEO no. 109/2011 mentions that **the guardianship authority is the institution coordinating the exercise by one or more public enterprises provided for in point 2 letter a) and/or letter b) of the capacity of shareholder or associate of a controlled company.**

With regard to the **competencies of the public guardianship authority** in the case of companies in which one or more public enterprises provided for in letters a) and b) hold a majority shareholding or a controlling interest, Art. (3) point 3 of GEO no. 109/2011 provides that the competent public authority has the following competencies:

- a) to make sure that the public enterprise exercises its capacity as shareholder under conditions of economic and strategic efficiency;
- b) to ensure that the controlled company complies with the principles of economic efficiency and profitability;
- c) to ensure, through its representatives in the general meeting of shareholders and through the corporate governance structures, that the requirements of the letter of expectations are reflected in the financial and non-financial performance indicators that are attached to the mandate contract;
- d) to monitor and assess, through its own corporate governance structures, the financial and non-financial performance indicators attached to the mandate contract;
- e) other duties provided for by the law.

Here are some examples of public enterprises that operate as limited liability companies:

- ✓ SOCIETATEA DE STRATEGIE PENTRU PIATA DE GROS SRL (Bulk Market Strategy Company)
- ✓ THE "SERVICII PUBLICE" SRL (PUBLIC SERVICES) BRANCH of the NATIONAL COPPER, GOLD AND IRON COMPANY "MINVEST" SA DEVA
- ✓ DEPOGAZ PLOIEȘTI SRL NATURAL GAS STORAGE BRANCH of SNGN ROMGAZ SA

National Company NUCLEARELECTRICA S.A.

65 Polona Street, District 1, 010494, Bucharest, Romania; Tel. +4021 203 82 00, Fax +4021 316 94 00;

Registration number with the Trade Register: J40/7403/1998, Sole Registration Code: 10874881,

Subscribed and paid-up share capital: RON 3,012,210,410

office@nuclearelectrica.ro, www.nuclearelectrica.ro



NUCLEARELECTRICA

- ✓ Service companies established at the level of local administrations: SC Administrare Active Sector 3 SRL (Asset Management), SC SD3 Salubritate si Deszapezire S3 SRL (Sanitation and Snow Removal).

Company name

Following the analysis of the types of services to be included within the scope of activities, as well as that of the names available with the National Trade Register Office, one possible name could be Nuclearelectrica Serv. However, the final name will be established by the Board of Directors of SNN, upon approval of the By-Laws of the new branch.

Aspects relating to the legal basis for the direct conclusion of service contracts between SNN and the newly established company

Following the analysis of legal provisions on sectoral public procurement (Law 99/2016), the advisory team of the Internal Audit Department (DAI) has identified a few exceptions, in view of the possibility of **directly awarding contracts to the newly established company, without public auction**. The specialized support of the Legal Directorate of SNN was requested in order to confirm the conclusions of the Internal Audit Department, and the **legal opinion** expressed by that Directorate is that SNN should have the right to conclude directly service contracts with the newly established company, the enforceability of Law no. 99/2016 being excepted.

According to Art. (47) par. (1) and (2) of Law no. 99/2016:

“(1) This law does not apply to sectoral contracts awarded by a contracting entity to a legal person under private or public law if the following conditions are cumulatively met:

a) the contracting entity exercises over the legal person in question a control similar to that which it exercises over its own departments or services;

b) more than 80% of the activities of the controlled legal person are carried out in order to fulfill the tasks entrusted to it by the controlling contracting entity or by other legal persons controlled by the contracting entity concerned;

c) there is no direct private participation in the capital of the controlled legal person, except for the forms of private capital participation which do not offer control or right of veto, but whose existence is necessary according to legal provisions, in accordance with the Treaties, and which do not exert a decisive influence over the controlled legal person.

(2) Within the meaning of par. (1) letter a), it is considered that a contracting entity exercises over a legal person a control similar to that which it exercises over its own departments or services when it exerts a decisive influence both over the strategic objectives and the important decisions of the controlled legal person; such control may be exercised by another legal person, which is itself controlled in the same way by the contracting entity.

Thus, in order for the situation of exemption from the enforcement of the provisions of Law no. 99/2016 to exist, all three conditions indicated in letters a) - c) of par. (1) of Art. (47) must be met, which conditions are met as follows in the case of establishing a new company:

- SNN exercises over the new company a control similar to that which it exercises over its own departments or services, as such similar control is defined in par. (2) of Art. (47), more specifically it exerts a dominant influence on the goals and decisions of the newly established company;

National Company NUCLEARELECTRICA S.A.

65 Polona Street, District 1, 010494, Bucharest, Romania; Tel. +4021 203 82 00, Fax +4021 316 94 00;

Registration number with the Trade Register: J40/7403/1998, Sole Registration Code: 10874881,

Subscribed and paid-up share capital: RON 3,012,210,410

office@nuclearelectrica.ro, www.nuclearelectrica.ro



- the activities of the newly established company are carried out in view of fulfilling the tasks entrusted by SNN;
- there is no private participation - SNN is a sole shareholder.

To conclude, the legal opinion is that we fall under the exception provided for in Art. (47) of Law no. 99/2016, so that SNN may award / entrust directly contracts for the provision of services to the newly established company, without having to go through the stages provided for in the sectoral public procurement law.

III. Services to be contracted by SNN with the newly established company

Initially, the **investment** is aimed at **taking over the radioactive waste management services** from the external supplier. The waste management process was entrusted in 2015 to the supplier MATE FIN, the worth of the contract being EUR 22,090,000 over a 5-year period (plus 2 years for the return of ash barrels).

In carrying out these services, the supplier:

- uses metal barrels made available by CNE in view of the containerization of waste;
- has free access to the utilities needed for the provision of services, as made available by CNE;
- uses the laboratory of CNE for waste characterization;
- provides, in exchange for a fee, the service and spare parts necessary for the preventive and corrective maintenance of the equipment in the CNE laboratory;
- has undertaken to provide the pre-treatment/processing and characterization activities by using 11 persons:
- for the treatment and conditioning of waste it uses authorized subcontractors such as: Belgoprocess, Studsvik Nuclear, Kinetrics, Socodei;

The carrying out of waste management activities involves the unfolding of operations in Units 1 and 2, and in the hall of the Radioactive Waste Intermediate Storage Facility located in the protected area of Cernavoda Nuclear Power Plant (CNE). This process consists of the following activities:

The characterization activities to be performed by the company will comprise all categories of low and medium active radioactive waste that result during normal operation and planned/unplanned outages, except for the radioactive spent filtering cartridges originating from the nuclear systems. The company will provide characterization equipment additional to that already existing at CNE Cernavoda in order to characterize the radioactive waste stored in the Solid Radioactive Waste Intermediate Storage Facility (SRWISF / DIDSF) and the newly generated radioactive waste within the deadlines set by CNE Cernavoda.

Radioactive waste **processing activities**, which will be carried out by using the facilities/equipment already existing at CNE Cernavoda, as well as additional facilities/equipment, to be provided/maintained by the new company.

National Company NUCLEARELECTRICA S.A.

65 Polona Street, District 1, 010494, Bucharest, Romania; Tel. +4021 203 82 00, Fax +4021 316 94 00;

Registration number with the Trade Register: J40/7403/1998, Sole Registration Code: 10874881,

Subscribed and paid-up share capital: RON 3,012,210,410

office@nuclearelectrica.ro, www.nuclearelectrica.ro



NUCLEARELECTRICA

The treatment/conditioning of incinerable and metallic radioactive waste will be performed by an authorized operator. Here are some of the operators mentioned by the supplier in the contract: Belgoprocess, Studsvik Nuclear, Kinetrics, Socodei.

The field of activity of the new company will also include other types of services, so that SNN will have the possibility, over time, to contract other types of services directly from this company if this turns out to be more cost-effective.

IV. Authorizations required

With regard to the authorization of the new company, the following aspects must be considered:

1. The new entity must be authorized in accordance with the requirements of the standards of the National Commission for the Control of Nuclear Activities (CNCAN) - Nuclear Quality Management Standards (NMC) / Radiological Safety Standards (NSR).

Under the circumstances, we consider as fulfilled the requirement in the environmental authorization for CNE Cernavoda - Units 1 and 2, which specifies that the treatment/conditioning of radioactive waste present at the CNE site should be carried out by an operator authorized by CNCAN.

2. From the point of view of environmental protection, the new company must have as its activity the provision of services for CNE Cernavoda - Units 1 and 2.

To support these recommendations, we add the following specifications:

The environmental authorization procedure for the new entity mainly depends on the activities specified in the Confirmation of Company Details (Trade Register Extract), namely:

- a) If the scope of activity of the company only includes the provision of services, then there is no question of a complex procedure of authorization in terms of environmental protection;
- b) If the scope of activity of the company includes, in addition to the provision of services, other industrial activities or activities which involve the takeover of assets from the corporate assets of CNE Cernavoda - Units 1 and 2, then, in accordance with the provisions of Art. (10) of GEO 195/2005, the new company must undergo a full environmental authorization procedure. Also, the environmental authorization of CNE Cernavoda - Units 1 and 2 is to be reviewed on the basis of the provisions of the aforementioned law article.

Therefore, the recommended solution is to set up a company whose scope of activities should solely consist of the provision of services.

National Company NUCLEARELECTRICA S.A.

65 Polona Street, District 1, 010494, Bucharest, Romania; Tel. +4021 203 82 00, Fax +4021 316 94 00;

Registration number with the Trade Register: J40/7403/1998, Sole Registration Code: 10874881,

Subscribed and paid-up share capital: RON 3,012,210,410

office@nuclearelectrica.ro, www.nuclearelectrica.ro

V. Financial analysis

The **financial analysis** was based on a comparison between the costs generated by the continuation of the contract with Mate Fin and those resulting from the internalization of the activity. The expected costs of the continuation of the activity with the supplier, over the next 5 years, amount to EUR 15,677,500. In view of estimating the internal costs of processing, information supplied by CNE with regard to the amount of waste estimated to be subjected to the pre-treatment and characterization operations, the equipment and machinery required, human resources and laboratory materials needed, was requested and used. Thus, the total internal operating costs of processing, characterization and treatment amount to EUR 8,918,125.

Operating savings resulting from the internalization of the waste management activity amount to **EUR 6,759,735 over 5 years.**

Internal costs of the characterization and pre-treatment of waste with an average mass of 29,311 kg / year (EUR)			Costs over a period of 5 years (EUR)
Salaries of operating personnel			1,451,735
Materials			2,809,856
Amortization of equipment and machinery			777,605
Repair and maintenance services for laboratory equipment and machinery			130,000
Cost of CNCAN authorizations and Radiological Security Authorization (RSA / ASR) for the solidified final product			30,801
Other expenses			94,807
Total internal costs of the characterization and pre-treatment of waste			5,294,804
Treatment/conditioning costs, of which:	Estimated quantity kg/year	Rate/Kg (EUR) - mate Fin contract	Costs over a period of 5 years (EUR)
combustible waste (MateFin rate)	11,655	29	1,690,027
active coal (MateFin rate)	2,479	41	508,246
metal (MateFin rate)	6,993	24.3	849,672
solidification (MateFin rate)	779	70.7	275,377
Transport of barrels			300,000
Subtotal cost of characterization and conditioning			3,623,322
Overall total costs of internalization			8,918,125
Potential gain from the internalization of the waste characterization and pre-treatment activity			6,759,375

The activity has increased profitability, the rate of the operating profit/loss being 37%, and the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) in relation to the turnover is 42%.

The cash flow generated by this activity is more than RON 4,700 thousand/year, the investment being recovered over 16 months from the start of the operating activity.



The investment requires funding of RON 8,028,705 to cover the procurement of equipment and machinery (including the related VAT) and RON 806,369 for the working capital. The tables below provide details of the company's financing needs so that the funds may be assigned rigorously, according to the investment schedule.

Equipment/Machinery	RON (VAT included)
Washing, drying, settling, oil filtration, decontamination machinery	86,930
Purchase of radioactive sources for the radioactive waste characterization laboratory	285,566
Radioactive waste shredding machine	610,825
Laboratory glassware	646,755
Gamma Spectrometer system designed for the measurement of radioactive waste barrels	5,795,300
Alpha Spectrometer	579,530
Computers/laptop - 5 pieces	23,800
Total	8,028,705

Financial Resources required for the working capital, out of which for:	Raw materials and consumables for a month of activity (VAT included)	Monthly personnel expenses	Other monthly services provided by third parties (VAT included)	Value of monthly services of waste treatment provided by external suppliers
806,369 (RON)	271,399	184,475	56,401	294,093

The human resources required for the takeover and continuation of the activity are 18 persons, of which 13 in the operating area and 5 in the administrative area. The details concerning the method of calculation of salaries are presented in the Business Plan attached to this Note.

No.	Job	Number of persons	Gross monthly salary per person
1	Technician	8	6,231
2	Head of Laboratory	2	15,441
3	Eng. Physicists/Chemists	2	12,732
4	Head of Waste Treatment Department	1	17,609
5	General Manager	1	27,361
6	Economist/Accountant	1	7,585
7	Human Resources Specialist	1	11,649
8	Internal Auditor	1	12,732

National Company NUCLEARELECTRICA S.A.

65 Polona Street, District 1, 010494, Bucharest, Romania; Tel. +4021 203 82 00, Fax +4021 316 94 00;

Registration number with the Trade Register: J40/7403/1998, Sole Registration Code: 10874881,

Subscribed and paid-up share capital: RON 3,012,210,410

office@nuclearelectrica.ro, www.nuclearelectrica.ro



NUCLEARELECTRICA

9	Chief Financial Officer/Chief Accountant	1	21,943
TOTAL		18	

The internalization of these types of services analyzed by the advisory team of the Internal Audit Department will be achieved by setting up a new company, whose legal form will be that of a limited liability company, with the intention to have it listed at the Stock Exchange in the future (in such a case, the company may be turned into a joint-stock company). The company will have a Board of Directors consisting of 3 members, one of the members being the General Manager of the company. The two members of the Board of Directors who are not also employees of the company receive a monthly fixed allowance. The allowance will be set by the mandate contract and reviewed annually, depending on the degree of achievement of the performance indicators provided for in the contract.

The main stages of the internalization project are as follows:

- setting-up of the new company, with the inclusion in its scope of activity of all the types of activities that could possibly be carried out;
- obtaining the authorizations needed in order to carry out the activities;
- establishing and completing a schedule of activities, of responsibilities in view of initiating the activities;
- assigning / providing the resources needed in order to initiate and carry out the activities;
- recruitment of the personnel required;
- gradually taking over the activities analyzed (radioactive waste management, etc.).

Business plan

You will find attached hereto the details of the investment in the form of a Business Plan developed for a period of 5 years.

VI. Proposals

Considering the above, as well as the provisions of Art. (13) par. (4) letter c) of the Articles of Incorporation of SNN according to which the Extraordinary General Meeting of Shareholders of SNN decides on the establishment or participation in the establishment of companies regulated by the Companies Law no. 31/1990, we propose the following:

- (i) ***The approval of the setting-up (establishment) of a branch, fully owned by SNN, in its capacity as sole shareholder, with the following characteristics:***
- Legal form: branch of SNN, on the basis of the provisions of Art. (42) of Law no. 31/1990 on trading companies, republished, with its updated amendments and additions (“Companies Law”), organized in the form of a limited liability company, on the basis of the provisions of Art. (2) letter e) of the Companies Law, and having SNN as its sole shareholder, on the basis of the provisions of Art. (13) par. (1) of the Companies Law;
 - The scope of activities of the branch will include: Treatment and removal of hazardous waste, Collection of hazardous waste and decontamination activities and services; The main and the

National Company NUCLEARELECTRICA S.A.

65 Polona Street, District 1, 010494, Bucharest, Romania; Tel. +4021 203 82 00, Fax +4021 316 94 00;

Registration number with the Trade Register: J40/7403/1998, Sole Registration Code: 10874881,

Subscribed and paid-up share capital: RON 3,012,210,410

office@nuclearelectrica.ro, www.nuclearelectrica.ro



NUCLEARELECTRICA

secondary activities will be provided for in the By-Laws to be approved by the Board of Directors of SNN;

- The registered office will be in Cernavoda; the precise address will be provided for in the By-Laws to be approved by the Board of Directors of SNN;
- Duration of the branch: indefinite;
- The company will be managed by a Board of Directors consisting of 3 members, which will be appointed by the Board of Directors of SNN;
- Term of office of the members of the Board of Directors: 4 years;
- The share capital of the company will be RON 200, according to Art. (11) of the Companies Law, the contribution of the sole shareholder having to be exclusively in cash. SNN is entitled to finance the new company by contracting shareholder loans.

- (ii) ***The approval of the mandating of the Board of Directors of SNN to fulfill all the formalities for the establishment of the new branch, of the Board of Directors***, including – without limitation – the following: establish/choose the location of the registered office of the branch in the locality of Cernavoda, choose the name of the branch, check the availability of and reserve the name of the branch, draw up and approve the By-Laws of the branch, in compliance with the legal requirements, appoint the members of the Board of Directors, appoint the external auditor/internal auditors, prepare all operations/formalities related to the paying-up of the share capital (including the opening of a bank account, making the actual payments, etc.), sign any statement required under the law in the name of the sole shareholder of the branch (e.g. statement of no overlap of office, statement concerning the fulfilment by SNN of all conditions required under the law, relevant for holding and exerting the capacity of sole shareholder of the branch, etc.), make the payment of all fees and rates related to the operation of establishing a new branch, contract notary's services, and, where appropriate, lawyer's services, as required for the establishment of the new branch and, in general, perform any operation and sign any document in relation to the establishment of the branch.

In order to fulfill the aforementioned acts, the Chairperson of the Board of Directors of SNN may delegate the duties/responsibilities related to the establishment of the new branch to any other person, including the Board of Directors of the branch, which will be appointed to this position through a decision of the Board of Directors of SNN.

General Manager

Cosmin Ghita

Deputy General Manager

Dan Laurentiu Tudor

Chief Financial Officer

Paul Ichim

National Company NUCLEARELECTRICA S.A.

65 Polona Street, District 1, 010494, Bucharest, Romania; Tel. +4021 203 82 00, Fax +4021 316 94 00;

Registration number with the Trade Register: J40/7403/1998, Sole Registration Code: 10874881,

Subscribed and paid-up share capital: RON 3,012,210,410

office@nuclearelectrica.ro, www.nuclearelectrica.ro