



**APPROVED,**  
**Board of Directors**  
**Chairman**  
**Teodor Minodor Chirica**

**Notification regarding the qualified opinion expressed by the independent financial auditor Mazars Romania S.R.L., in the audit reports on the Individual and Consolidated Financial Statements concluded on December 31, 2020**

By Order no. 183/22.04.2021, registered with S.N. Nuclearelectrica S.A. (“SNN”) under no. 4967/23.04.2021, majority shareholder the Ministry of Energy (“ME”) requested the executive and administrative management of SNN to express a point of view regarding the qualified opinion of independent financial auditor Mazars Romania S.R.L, on the Individual and Consolidated Financial Statements concluded on December 31, 2020.

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 qualified opinion expressed by the financial auditor in the audit reports related to financial year 2020 are found in all the audit opinions related to the IFRS financial statements prior to 2020 (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 for qualified opinion, 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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Subscribed and paid share capital: RON 3,016,438,940  
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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 31.12.2020, following the accounting value related to Units 3 and 4 reflected in the financial position, thus expressing an qualified opinion regarding this aspect reflected in the individual and consolidated financial statements.

A solution to eliminate this qualified opinion, 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 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 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. In 2019-2020, negotiations were held between the Government of Romania and the Government of the United States of America regarding the cooperation in connection with the nuclear-energy projects from Cernavoda and in the civil nuclear energy sector in Romania, which were completed by concluding the Agreement on October 9, 2020, at Washington DC. The agreement targets several areas of cooperation, among which: the project of Units 3 and 4 of Cernavoda, the refurbishment of Unit 1, the cooperation in fields such as regulation, research and development, exchanges between research laboratories and universities, personnel training.

The agreement will contribute to the relaunch of the new guidelines for the development of the nuclear-energy capacity in Romania, the Project of Units 3 and 4 of CNE Cernavoda representing one of the optimal solutions to cover the deficit of electricity production capacity due to the necessity of replacing the energy capacities based on fossil fuels with capacities based on technologies with low carbon emissions.

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 qualified opinion 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 qualified opinion 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**