



DISCLAIMER: With a view to complying with the provisions of the Government Ordinance no. 26/2013, the Order of the Minister of Public Finance no. 3818/2019 and Law no. 368/2022 on regarding the content and format of the income and expenditure budget templates, estimation of the 2022 actual indicators the 2023 budget relies on **was performed on the basis of the trial balance issued on 3 January 2023**, which is a preliminary trial balance for 2022. The unaudited preliminary annual financial results for 2022 are to be published on 24 February 2023, according to the financial timetable, and the final audited annual financial statements for 2022 are to be approved in the General Meeting of the SNN Shareholders of 26 April 2023, in accordance with the approved and published financial timetable.

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

NOTE
on the substantiation of the draft Income and Expenditure Budget
of S.N. “Nuclearelectrica” S.A. for the year of 2023

The Draft 2023 Income and Expenditure Budget (“IEB”) of S.N. Nuclearelectrica S.A. (“SNN”) was prepared in observance of the provisions of the Government Ordinance no. 26/2013 *on the strengthening of financial discipline in certain economic operators the sole or control stockholder of which is the State or administrative and territorial units, or where the State or administrative and territorial units hold a majority interest*, as subsequently amended and supplemented, which regulates as follows:

- Article 6(1[^]1) *The economic operators provided at Article 4(1)(d), the shares of which are admitted to trading on a regulated market and their subsidiaries, shall submit to the General Meeting of Shareholders, according to the law, for approval, after the prior consultation of the trade union organizations, the income and expenditure budget accompanied by the substantiating appendices prepared in accordance with the legal provisions in force, within 60 days of the coming entry into force of the State Budget Law, or of the approval date of the local budgets of communes, towns, cities, the district of City of Bucharest, counties and the City of Bucharest, as applicable;*
- Article 7(1) *Annually, under the State Budget Law, waging policy objectives are set based on which economic operators substantiate their income and expenditure budget indicators;*
- Article 9(1) *When substantiating their income and expenditure budgets, economic operators shall consider including, but without limitation to, the following:*
 - a) *observance of the policy of the Government and of the administrative and territorial units as to improvement of the economic and financial performances of economic operators;*
 - b) *observance of the waging policy objectives set out under the annual State Budget Law.*

Substantiation of the SNN Income and Expenditure Budget was done in keeping with the legal provisions contained in:

- Law no. 368/2022 of the 2023 State Budget;
- Government Ordinance no. 26/2013, on the strengthening of financial discipline at the level of certain economic operators in which the State or administrative-territorial units are sole or majority shareholders or in which they hold directly or indirectly a majority stake, as subsequently amended and supplemented;
- MoPF Order no. 3.818/2019 approving of the format and structure of the income and expenditure budget, as well as of its substantiating appendices;
- Government Emergency Ordinance no. 109/2011 on corporate governance, as subsequently and supplemented;
- Government Ordinance no. 64/2001 on the profit distribution at national enterprises, national companies and companies with full or majority State capital, as well as at self-governed administrations, as subsequently amended and supplemented;
- Law no. 227/2015 on the Fiscal Code, as subsequently amended and supplemented;
- The company's 2023 valid collective bargaining agreement ("CBA");
- other applicable regulations and laws in force.

The draft 2023 income and expenditure budget was subjected to the financial management control according to the provisions of the Government Decision no. 1151/2012 approving the methodological rules for organization and exercise of the financial management control activity, and received a favourable clearance.

The programmes of measures to improve the gross result and cut down the overdue payments proposed under this draft budget shall be taken into account for determination of the company's management performance indicators for new future mandate contracts. Currently, the company's management have in place performance indicators set out under the mandate contracts concluded before preparation of this budget, but these already existing performance indicators also measure, by their intrinsic nature, application of measures to improve the gross result and cut down the overdue payments, and the level of the economic and financial indicators in the budget was determined taking into account the management performance indicator targets, as these stem from the management plan, with the management component included, as well as from the existing mandate contracts.

With a view to complying with the provisions of the Government Ordinance no. 26/2013, the Order of the Minister of Public Finance no. 3818/2019 and Law no. 368/2022 on regarding the content and format of the income and expenditure budget templates, **estimation of the 2022 actual indicators** the 2023 budget relies on **was performed on the basis of the trial balance issued on 3 January 2023, which is a preliminary trial balance for 2022**. The unaudited preliminary annual financial results for 2022 are to be published on 24 February 2023, according to the financial timetable, and the final audited annual financial statements for 2022 are to be approved in the General Meeting of the SNN Shareholders of 26 April 2023, in accordance with the approved and published financial timetable.

The draft 2023 income and expenditure budget expects a **gross profit of lei 1,842,417 thousand (lei -837,244 thousand, i.e., -31.2% v 2022 rectified budgeted, lei -1,165,076 thousand, i.e., -38.7% v 2022 preliminary actual) and a net profit of lei 1,556,003 thousand (-30,8% v 2022 rectified budgeted, -38.5% v 2022 preliminary actual)**. The results are obtained based on total revenues of lei 7,624,626 thousand (+15.4% v 2022 rectified budgeted, +15.0% v 2022 preliminary actual) and total expenses of lei 5,782,209 thousand (+

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47.2% v 2022 rectified budgeted, +59.6% v 2022 preliminary actual), as well as based on the estimated corporate tax of lei 286,414 thousand (-33.5% v 2022 rectified budgeted, -40.2% v 2022 preliminary actual).

The total expenses for 2023 are significantly negatively influenced by the legal provisions regarding the Contribution to the Energy Transition Fund, respectively by the application of the provisions of Law no. 357/2022 for the entire year 2023, which generates an increase in this contribution of approximately lei 557 million, only from the change in the calculation methodology. In addition, although SNN estimates obtaining a higher weighted average selling price of electricity in 2023 than in 2022, this increase in productivity is negatively counterbalanced by the charging of this contribution, so that the contribution increases by another approximately 849 millions. Therefore, the total expenses are higher by lei 1.4 billion solely from the increase in the contribution. Considering the justifications for the increase in personnel expenses, detailed in chapter C below, the total expenses are increased by approximately lei 230 million. Thus, the percentage increase of total expenses scheduled in 2023 of 59.6%, without the influence of the two elements above, it would be 14.5%. The growth percentage of total revenues is 15.0%, so the growth percentage of adjusted expenses is in line with the growth percentage of total revenues.

*The percentage comparisons below refer to the amounts budgeted for 2023 compared to the **preliminary actual** amounts for 2022, being indicated as "+/- x%", unless otherwise indicated.*

I. TOTAL REVENUES

Total revenues were estimated at **lei 7,624,626 thousand** (+15.0%), of which operating income **lei 7,382,231 thousand** (+14.7%) and financial income **lei 242,395 thousand** (+26.4%).

1. Operating income (line 2) of lei 7,382,231 thousand include income from sold production of lei **7,284,864 thousand** (+14.8%) (line 3), of which the income from the sale of products representing electricity and thermal energy amount to **lei 7,282,964 thousand** (+14.8%) (line 4).

1.1. Income from sale of electricity – lei 7,276,956 thousand, at a quantity planned for sale of **10,319 GWh**, resulting into a weighted average sale price of **lei 705.19/MWh** (price without Tg).

The draft income and expenditure budget provides for the sale of a total amount of electricity of **10,319 GWh** in 2023, at an average sale price of **lei 707.67/MWh** (taking into account also the value of the estimated positive imbalances and the transmission tariff Tg).

The assumptions of the budget construction for the income from the sale of electricity are as follows:

a. Cernavodă NPP's electricity delivery programme

The amount of electricity forecasted to be **delivered of 10,114 thousand MWh** was estimated based on the **2023 electricity production programme (revision of September 2022)**. To this is added a quantity estimated as required to be purchased to optimize the sales mix, particularly during the planned and unplanned shutdowns. The production and delivery programme was devised considering operation of the nuclear units at a high-capacity factor, similar to the levels of the previous years over a multiannual period, a duration of the planned shutdown of Unit 2 of about 44.5 days, as well as unplanned shutdowns of Units 1 and 2, based on historical data over a longer time period. In the nuclear industry, unplanned shutdowns are part of a normal operation of the nuclear units, and prudent management requires budgeting of a number of unplanned shutdown hours based on multiannual average figures.

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b. SNN's electricity sale programme

The revenue projection was based on a **sales programme** of **10,319 thousand MWh**, under the **contracts already concluded** on the IEB preparation date, for the deliveries of electricity due to take place in 2023, **on the quantities of electricity that SNN is going to sell through the 2023 electricity centralized purchase mechanism** ("MACEE"), as well as on price assumptions related to the average price on different OPCOM platforms, for **the remaining quantity to be contracted**.

Thus, having aggregated the data related to the quantities and certain prices related to the concluded sales transactions with the assumptions related to the quantities remaining to be sold and the estimated prices, it follows that the value of the electricity production projected to be sold/delivered in 2023 is **7,276,956 thousand** (without TG).

c. Generation of certain income with a limited production capacity

It should be noted that, for SNN, **the production capacity is limited by the installed power of the two functional nuclear reactors that have already operating at a high average capacity factor**, significantly above the industry average, as well as by the duration of the planned shutdown of Unit 2 of 44.5 of days and the budgeted number of unplanned shutdown hours. Units 1 and 2 rank 1st worldwide, judged by the combined utilization factor of the production capacity since commissioning. The prices on the competitive market are formed freely and competitively, based on the demand/supply ratio. Thus, the key driver of the operating income is the market price of electricity. However, for 2023, there is a reasonable degree of certainty as to realization of the revenues envisaged under this draft IEB, considering the relevant share of the already contracted quantity.

1.2. Income from sale of thermal energy - lei 6,008 thousand

The income from the sale of thermal energy was estimated taking into account a quantity of delivered thermal energy of about 69.92 thousand Gcal, at the production and transmission price of lei 85.93/Gcal; thus, it accounts only for a small share in the total operating income.

1.3. The income from royalties and rents (line 6) was estimated at **lei 864 thousand**, representing income obtained from land and administrative space leases, whereas **other income (line 7)** of **lei 1,036 thousand** is represented by miscellaneous income, including income from the sale of green allowances and income from sale of residual products.

1.4. Income from sale of goods (line 8) of **lei 25,590 thousand** (+11.7%) represents the value of electricity transmission. The transmission tariff set out under the ANRE Order no. 33/2022 is lei 2.53/MWh (regulated tariff) effective 1 April 2022; so, it was estimated for the whole 2023 at this amount. This type of income has a correspondent in the cost of goods sold, which is invoiced to customers of SNN.

1.5. Income from production of fixed assets (line 12) amounting to **lei 48,774 thousand**, represents mainly the capitalized value of personnel costs allocated to the Unit 1 Revamping and Debris Removal Facility (CTRF) projects, developed according to the Investment Strategy of SNN corresponding to the period 1 July 2020 – 1 July 2025 and developed by means of Cernavodă NPP Branch.

1.6. Income related to the cost of production in progress (line 13) – lei 7,865 thousand, estimated in accordance with the planned production of nuclear fuel bundles of NFP Pitești.

1.7. Other operating income (line 14) of lei 15,138 thousand (-17.9%) mainly represents the income from subsidies for investments, representing loan repayments and interest payments made by the Romanian State to banks, on behalf of SNN, for the financing of Unit 1. These amounts are restated annually as income, as the plant, property and equipment financed from those subsidies are depreciated. Also, the same income also includes estimates of the proceeds from the sale of tangible assets, which are expected to be obtained after the sale of unused assets. The difference observed against the preliminary actual figures for 2022 is determined by the recording of income from penalties and indemnities in 2022, which are no longer found in 2023.

2. Financial income of lei 242,395 thousand (+26.4%) was estimated based on the forecasting of the income from exchange rate differences and of the interest payable by banks on the deposits set up by the company in lei and foreign currency.

II. TOTAL EXPENDITURE

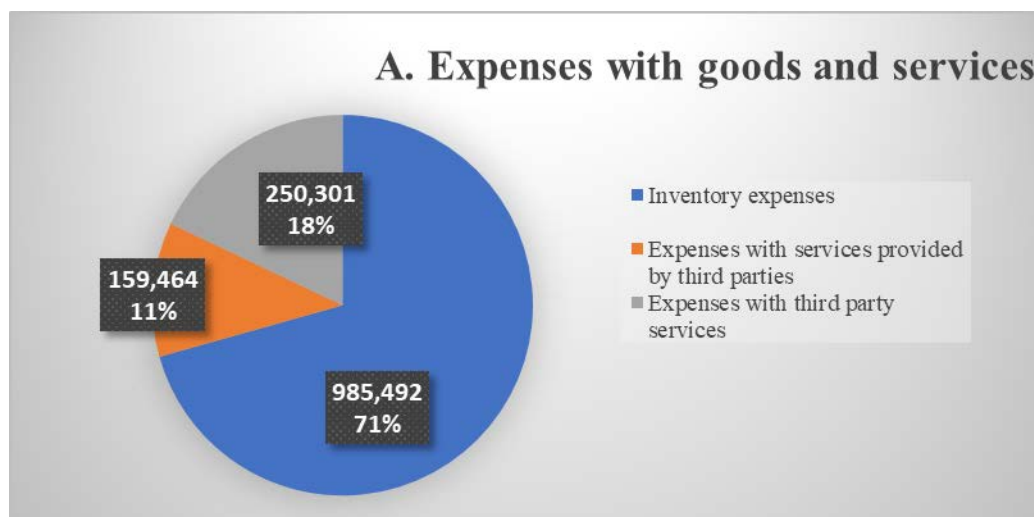
Total expenditure of lei 5,782,209 thousand (+59.6%) includes operating costs of **lei 5,739,386 thousand (+59.8%)** and financial costs of **lei 42,823 thousand (+42.3%)**.

The expenditure substantiation was done taking into account the estimated inflation indices and/or the evolution of the forecasted exchange rates according to the 2022 fall forecast of the National Forecasting Commission, for those costs which, by their nature, have a relatively straight-line evolution, as adjusted in accordance with SNN's own expectations as to the evolution of the exchange rate.

A nuclear power plant can only operate under full nuclear safety and operational excellence conditions if it has the necessary financial resources for maintenance, operation and investment activities; thus, for the operating and maintenance costs, the budgeting philosophy adopts a "bottom-up" approach, *i.e.*, the activities programmed in detail give annual and multi-annual needs. This is how the company provides for the resources needed to achieve the abovementioned goals, specific to the nuclear industry.

1. Operating expenses of lei 5,739,386 thousand (+59.8% v 2022 preliminary actual, +47.4% v 2022 rectified budgeted) consist of the cost of goods and services, cost of taxes, charges and similar payments, payroll costs and other operating expenses.

A. The cost of goods and services of lei 1,395,257 thousand (+47.3% v 2022 preliminary actual, +13.8% v 2022 rectified budgeted) includes the costs detailed below:



| INDICATORS | | Row no. | Provisions for the previous year 2022 | | 2023 | - thousand lei - | |
|--------------|--------------------------------------------------|---------|---------------------------------------------------------|-----------------------------|------------------|------------------|-------------|
| | | | Approved according to OGMS Resolution no. 10/19.10.2022 | Preliminary / Achieved 2022 | | % | % |
| 0 | 1 | 2 | 3 | 4 | 5=4/2 | 6=4/3 | |
| A1 | Inventory expenses | 31 | 945,556 | 732,393 | 985,492 | 104% | 135% |
| A2 | Expenses with services provided by third parties | 39 | 121,754 | 95,443 | 159,464 | 131% | 167% |
| A3 | Expenses with third party services | 45 | 158,892 | 119,199 | 250,301 | 158% | 210% |
| Total | | | 1,226,202 | 947,035 | 1,395,257 | 114% | 147% |

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A1 - cost of inventories of lei 985,492 thousand (+34.6% v 2022 preliminary actual, +4.2% v 2022 rectified budgeted) represents consumption of raw materials and materials needed for both the current maintenance programme with the Power Plant in operation, as well as the maintenance programme due to be carried out during the planned or unplanned shutdowns, *i.e.* spare parts, ancillary materials, other consumables, inventory items and work protective equipment, the consumption of energy, water and gas, cost of goods (electricity purchased on the free market during shutdowns, purchase of green allowances, charge for injecting the electricity into the transmission network payable to CN Transelectrica SA - zonal transmission tariff Tg).

| | | | | | - thousand lei - | | |
|-------------------------|------------------------------------------------------|---------|---------------------------------------------------|--------------------------------|------------------|-------------|-------------|
| A1 - Inventory expenses | | Row no. | Provisions for the previous year 2022 | | 2023 | % | % |
| | | | Approved | Preliminary / Achieved 2022 | | | |
| | | | according to OGMS Resolution no. 10/19.10.2022 | | | | |
| 0 | 1 | 2 | 3 | 4 | 5=4/2 | 6=4/3 | |
| a) | expenses with raw materials | 32 | 157,862 | 153,283 | 204,318 | 129% | 133% |
| b) | expenses with consumables | 33 | 95,715 | 86,746 | 108,143 | 113% | 125% |
| c) | expenses regarding materials such as inventory items | 36 | 3,983 | 3,061 | 5,042 | 127% | 165% |
| d) | energy and water expenses | 37 | 93,462 | 91,968 | 110,656 | 118% | 120% |
| e) | commodity expenses | 38 | 594,532 | 397,335 | 557,333 | 94% | 140% |
| Total | | | 945,556 | 732,393 | 985,492 | 104% | 135% |

a) Cost of raw materials amounting to **lei 204,318 thousand**, (+33.3% v 2022 preliminary actual, +29.4 v 2022 rectified budgeted) represents the consumption of synthesizable uranium powder for manufacture of nuclear fuel. The costs foreseen for 2023 were determined mainly according to the physical production and the estimated costs of purchasing uranium powder and Zircaloy-4 products. The cost of the synthesizable Uranium powder in UO₂ was calculated taking into account the uranium stocks on 31 December 2022 and the average prices of the last orders placed to CNU and Kazatomprom. Where the powder price, which will be regulated/contracted, shows significant variations compared to the budget projection (increase/decrease), this budget item shall have to be rectified.

b) Costs of consumables of lei 108,143 thousand (+24.7% v 2022 preliminary actual, +13.0% v 2022 rectified budgeted) consist of:

- cost of spare parts (lei 27,852 thousand), cost generated mainly by current maintenance, repair and replacement programmes concerning the nuclear units (this cost heading does not include essential, vital and critical spare parts, as the elements that have a period of use longer than 1 year are recognized according to IAS 16 as non-current assets, for which depreciation is calculated);
- cost of fuel (lei 4,414 thousand), going up by approximately lei 1,760 thousand compared to the 2022 preliminary actual figure, justified by the increase in the price of motor fuels. Under the same fuel costs, we included also the consumption of fuel used for both operation of the two units Diesels, and the Start-up ing Plant;
- costs of other consumables (lei 75,877 thousand lei) represent consumption of materials for current maintenance and repairs, radiation protection and occupational safety and administrative matters, as well as materials such as: technical and special gases, oils, chemicals, radioprotection materials and other consumables for maintenance and operation of the power plant, in accordance with the estimated needs for 2023.

c) Costs of materials similar to inventory items of lei 5,042 thousand.The main costs from this category are intended in particular to support the work of the maintenance and repair, radioprotection, administrative and physical protection departments, representing individual equipment needed for body protection, office furniture and office accessories needed for the work spaces, fingerprint readers, as well as furniture needed to equip the accommodation spaces in the Complex, estimated at lei 3,186 thousand.

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d) Costs of energy and water of lei 110,656 thousand (+20.3% v 2022 preliminary actual, +18.4% v 2022 rectified budgeted) include the costs of process water, current consumption of water and electricity for the outdoor spaces. The increase in the costs of process water is mainly represented by the increase in the cost of cooling water from the Danube (estimated tariff of lei 29.83 lei/thousand cubic meters) and the increase in receiving water from resources. The increase in costs of utilities is caused by the increase in electricity, thermal energy and gas supply tariffs.

e) Costs of goods of lei 557,333 thousand (+40.3% v 2022 preliminary actual, -6.3% v 2022 rectified budgeted). This category includes:

- **consideration of the electricity** transmission at a regulated tariff (TG) paid to CN "Transelectrica" SA for injection of electricity into the electricity transmission network, which is also found in income from the sale of goods, in the same amount, and is charged to and recovered from customers – **lei 25,590 thousand**; the applied tariff is lei 2.53/MWh effective 1 April 2022, according to the ANRE Order no. 33/2022;

- **costs of electricity estimated to be purchased** on the free market during shutdowns - **lei 531,743 thousand**, particularly unplanned shutdowns. This quantity is provided for fulfilment of the obligations under the electricity sales contracts concluded with customers, considering the quantities unavailable due to shutdowns. The variation compared to the 2022 preliminary actual comes from inclusion of the amount of electricity due to be purchased to cover the production shortage during planned or unplanned shutdowns, so as to allow the sale of additional band quantities, to optimize the sales mix.

Execution savings can be obtained under this expenditure heading (as done in 2022), but only provided that the actual number of hours of unplanned shutdown is lower than the budgeted number of hours of unplanned shutdown, and the cost of the purchased energy is to be lower than or at most equal to the budgeted amount.

According to the recommendations made by the manufacturer and industry standards, for a CANDU 6-type nuclear power plant, a number of approximately 150 hours of unplanned shutdowns is estimated annually for each unit. Prudentially, for 2023, SNN estimates a number of hours of unplanned shutdowns of approximately 264 hours for the two nuclear reactors; however, depending on the effective operation of the power plant, the actual number of hours of unplanned shutdown may be higher or lower than planned. Execution cost savings can be achieved, but which cannot be ignored or diminished when in IEB preparation; on the other hand, if the number of unplanned shutdown hours is exceeded and purchase price of this needed energy fluctuates, this may lead to the budgeted expenditure being exceeded.

The level of expenditure is influenced by the need to budget a quantity of energy to be purchased during planned and unplanned shutdowns, which results in a high level of “commodity expenditure” at least at the budgeted level.

The costs are prudentially substantiated, but without prejudice to the high level of the quality standards required for operation and maintenance of nuclear power plants.

The abovementioned aspects led to the increase in the costs of goods (a heading which also covers for the electricity purchased for the planned and unplanned shutdowns) compared to the 2022 preliminary actual.

A2 - costs of third-party services of lei 159,464 thousand (+67.1% v 2022 preliminary actual, +31.0% v 2022 rectified budgeted). The estimated amount of the necessary services is based on the specific operating requirements, as well as on ongoing contracts which are generally multiannual.

| | | | | | - thousand lei - | | |
|-------------------------------------------------------------|---------|---------------------------------------------------|---------------|--------------------------------|------------------|-------------|---|
| A2 - Other expenses with services provided by third parties | Row no. | Provisions for the previous year 2022 | | | 2023 | % | % |
| | | Approved | | Preliminary / Achieved 2022 | | | |
| | | according to OGMS Resolution no. 10/19.10.2022 | | | | | |
| 0 | 1 | 2 | 3 | 4 | 5=4/2 | 6=4/3 | |
| a) expenses with maintenance and repairs | 40 | 104,679 | 81,380 | 140,574 | 134% | 173% | |
| b) rent expenses | 41 | 2,297 | 571 | 4,352 | 189% | 762% | |
| c) insurance premiums | 44 | 14,779 | 13,492 | 14,538 | 98% | 108% | |
| Total | | 121,754 | 95,443 | 159,464 | 131% | 167% | |

a) Costs of maintenance and repairs (lei 140,574 thousand), which include both the services required for the current maintenance programme with the Power Plant in operation for all the Power Plant's systems (electrical, ventilation and mechanical systems, process parameters monitoring, equipment and plant from the fixed front, sieving unit and pumping unit, power transformers, lifting gear, "STA" water treatment plant, etc.), as well as the repair and maintenance services for Unit 2, scheduled for the planned shutdown in May - June 2023 (those repair and maintenance services that do not qualify as investment, but are expensed).

The amount proposed under this expenditure heading is correlated with the maintenance and repair programme included in the Annual Activity Plan. For 2023, under this heading, the amount increased by approx. 72.7% compared to the 2022 preliminary actual due to the postponement a number of activities of the maintenance programme in 2022 and to the still need to have these activities performed in 2023, at updated tariffs, such as: maintenance services in the Power Plant going up by approx. lei 7,500 thousand, as well as due to new activities.

b) Costs of rents (lei 4,352 thousand) include costs related to the areas rented for storage of equipment and materials managed by NPP in Saligny area, the rent for the nitrogen and hydrogen storage tanks, the rent for the portable multi-gas detectors, the rent for the lease of an overhead power line PHPL # 5606, and the rent for a new office building intended for as Executive Headquarters (approx. lei 3,800 thousand).

c) Costs of insurance premiums (lei 14,538 thousand) include nuclear risk insurance of the Power Plant, liability insurance for the management and administrative staff, insurance for travel abroad, insurance for accidents at work and occupational diseases for the SNN staff, as well as and other covers. The amount budgeted for 2023 represents the maximum amount that can be achieved, under the terms of these types of insurance, higher than in 2022, the period where company benefited from the reimbursement of an insurance premium from the total consideration of the nuclear risk insurance.

A3 - costs of other third-party services of lei 250,301 thousand (+110.0% v 2022 preliminary actual, +57.5% v 2022 rectified budgeted) represent: costs of commissions and fees, business entertainment cost, advertising and publicity costs, sponsorship costs, costs of freight and passenger transport, cost of travel, posting and transfer, cost of banking services, postal expenses and telecommunications fees, costs of security and protection of the facilities and staff, cost of computing technology maintenance, cost of staff training, costs of radioactive waste management services, etc. Also, for this expenditure category, those services that are generated by Cernavodă NPP account for the largest share and require budgeting of resources that would cover for all the programmed activities. At contractual level, the ongoing multiannual services contracts add certainty to the quantitative and value amount of the costs of these services.

| | | | | | - thousand lei - | | |
|-----------------------------------------|--------------------------------------------------------|---------|---------------------------------------------------------|-----------------------------|------------------|-------------|-------------|
| A3 - Expenses with third party services | | Row no. | Provisions for the previous year 2022 | | 2023 | % | % |
| | | | Approved according to OGMS Resolution no. 10/19.10.2022 | Preliminary / Achieved 2022 | | | |
| 0 | | 1 | 2 | 3 | 4 | 5=4/2 | 6=4/3 |
| a) | expenses with collaborators | 46 | - | - | - | 0% | 0% |
| b) | expenses with commissions and fees | 47 | 12,736 | 390 | 5,173 | 41% | 1325% |
| c) | hospitality, promotion and advertising expenses | 49 | 1,935 | 453 | 3,301 | 171% | 729% |
| d) | Sponsorship exp. | 56 | 12,421 | 8,695 | 17,187 | 138% | 198% |
| e) | expenses with the transportation of goods and persons | 61 | 6,523 | 5,677 | 7,738 | 119% | 136% |
| f) | expenses with travels, secondments, transfers | 62 | 4,378 | 5,285 | 16,275 | 372% | 308% |
| g) | postal expenses and telecommunications taxes | 66 | 592 | 415 | 622 | 105% | 150% |
| h) | expenses with banking and assimilated services | 67 | 560 | 399 | 537 | 96% | 135% |
| i) | other expenses with services provided by third parties | 68 | 24,672 | 18,994 | 37,987 | 154% | 200% |
| j) | other expenses | 77 | 95,075 | 78,891 | 161,481 | 170% | 205% |
| Total | | | 158,892 | 119,199 | 250,301 | 158% | 210% |

- **Costs of commissions and fees (line 47) – lei 5,173 thousand** mainly represent costs of legal advice in accordance with the estimates of the external legal advice needed in 2023. The significant increase compared to the 2022 preliminary actual amount is caused by the need to budget assistance/advisory services in connection with the major investment projects, as well as with the major strategic projects featured in the SNN Investment Strategy, for the period 1 July 2020 - 1 July 2025, as approved by shareholders. The purchase of legal advice services is justified by the fact that, in terms of both of the estimated workload and the technical legal expertise required, such services cannot be provided by the in-house legal staff of SNN. The purchase of these services was approved under the EGMS Resolution no. 12/28.10.2021, for a period which covers 2023 as well.
- **Costs of business entertainment, advertising and publicity (line 49) are estimated at lei 3,301 thousand**, as follows:
 - Business entertainment costs (lei 491 thousand) were sized below the level of deductibility set out under the Fiscal Code and in compliance with the maximum limits in Appendix 2 of Ordinance no. 80/2001 *setting out rules for the expenses incurred by the public administration authorities and public institutions*;
 - Advertising and publicity costs (lei 2,810 thousand) are aimed at increasing the understanding and acceptance of nuclear energy domestically and internationally, maintaining a positive image for SNN, counteracting actions with an adverse impact on the development of the national energy programme, and advancing the projects of SNN;

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- **Sponsorship costs (line 56) – lei 17,187 thousand** are higher than under the 2022 rectified budget, according to the level of deductibility provided in the Fiscal Code. These costs are subject to the provisions of Law no. 32/1994 on sponsorship, as subsequently amended and supplemented, and to the express approval of the Board of Directors, and the actions for which sponsorship is granted are presented for information in the GMS; the allocation of sponsorships between the following fields: medical and health (40%), education, social and sport (40%), other activities (20%) is in accordance with the provisions of EGO 2/2015;
- **Costs of freight and passenger transport (line 61) – lei 7,738 thousand**, representing cost for passenger and freight transport services, going slightly up compared to 2022, and determined by the increase in the rates charged by carriers;
- **Costs of travel, posting and transfer (line 62) - lei 16,275 thousand** observe an increase compared to actual figure of 2022 mainly due to the need of the staff involved in the Refurbishment activity of Unit 1 (approx. lei 6,200 thousands) to travel to Canada, the trips for staff training activities in the country and abroad (approx. lei 3,500 thousand) and other trips needed to carry out the activity, for participation in benchmarking, and attend various manufacturing stages (approx. lei 2,500 thousand);
- **Postal costs and telecommunications fees (line 66) - lei 622 thousand** include the estimated cost of telephone and internet services, going up compared to the actual figure of 2022, in accordance with the required level of activity and with the changes in the rates landline, mobile and data services;
- **Costs of banking and similar services (line 67)** estimated at **lei 537 thousand** include the estimated costs of bank commissions, at the same level the 2022 rectified budgeted amount;
- **Other expenditure on services executed by third parties (line 68) - lei 37,987 thousand**, of which:
 - a) **Costs of insurance and security (lei 3,118 thousand)** include insurance and security services for the facilities and staff, going up by lei 332 thousand compared to the 2022 preliminary actual due to indexation of rates under the contracts and estimation of the required number of hours in 2023;
 - b) **Costs of maintenance and operation of the computing equipment (lei 18,217 thousand lei)** include costs of maintenance of the workstations, servers and HP equipment, the database management systems, and for the new IT equipment further to expansion and upgrading of the network of computers. The increase estimated for 2023 compared to 2022 is mainly due to the need for technical assistance services for the new document management system and Intec, as well as the need to contract support services and upgrade the IT system.
 - c) **Costs of professional training of lei 16,508 thousand.** The amount of these costs is determined by the need to ensure the training of the staff, including of management/coordination, operation, maintenance and technical staff by experts of external specialized organizations, as well as the training of newly hired operating staff according to the mandatory training programme. The increase is estimated due to the need to provide authorized trainers from external organizations to train the main nuclear operators and the shift lead dispatchers;
 - d) **Costs of revaluation of the tangible and intangible non-current assets (lei 85 thousand)** as needed for valuation of the district thermal energizing network;

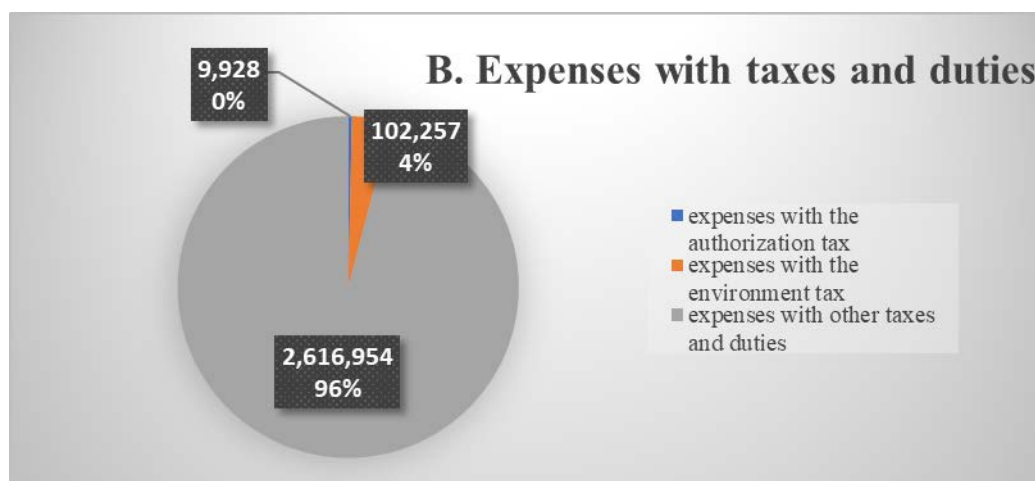
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e) **Costs of tender and other notices (lei 59 thousand)** are estimated based on the actual amount of the media contracts;

- **Other costs (line 77) - lei 161,481 thousand**, which include other operating services, such as radioactive and non-radioactive waste management and decontamination services, technical assistance, maintenance of the thermal energy supply system and water circuit, cleaning services for process and administrative spaces, maintenance of storage spaces, services provided by specialized nuclear organizations for development of common programmes.

These costs are +104.7% higher than the 2022 preliminary actual value and +69.8% higher than the 2022 rectified budgeted figure. The increase of this heading is mainly due to the additional requirements for advisory services needed for the implementation of the investment projects the company is undertaking, review of the preliminary decommissioning plan, nuclear safety analyses and other activities scheduled for 2023.

B. Costs of taxes, charges and similar payments of lei 2,729,139 thousand (+110.4% v 2022 preliminary actual, +116.8% v 2022 projected budgeted) include contribution to the Energy Transition Fund, with a value of lei 2,508,903 thousand (amounting to 95,9%), the authorization fee, the environmental charge and other fees and charges (including the ANRE tax and the tax calculated under Law no. 259/2021), according to the details below and the representation in the following chart



| B - Expenses with taxes, duties and assimilated payments | | Row no. | Provisions for the previous year 2022 | | 2023 | - thousand lei - | |
|----------------------------------------------------------|-------------------------------------------------------------------------------------|---------|---------------------------------------------------------|-----------------------------|------------------|------------------|-------------|
| | | | Approved according to OGMS Resolution no. 10/19.10.2022 | Preliminary / Achieved 2022 | | % | % |
| 0 | | 1 | 2 | 3 | 4 | 5=4/2 | 6=4/3 |
| a) | expenses with the tax for the activity of operating mineral resources | 79 | - | - | - | 0% | 0% |
| b) | expenses with the royalty for the concession of public assets and mineral resources | 80 | - | - | - | 0% | 0% |
| c) | expenses with the license tax | 81 | - | - | - | 0% | 0% |
| d) | expenses with the authorization tax | 82 | 9,944 | 9,919 | 9,928 | 100% | 100% |
| e) | expenses with the environment tax | 83 | 104,114 | 102,884 | 102,257 | 98% | 99% |
| f) | expenses with other taxes and duties | 84 | 1,145,025 | 1,184,264 | 2,616,954 | 229% | 221% |
| Total | | | 1,259,083 | 1,297,067 | 2,729,139 | 217% | 210% |

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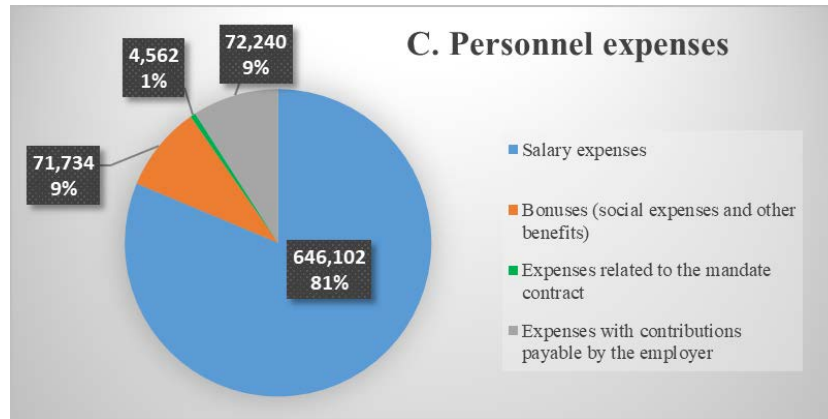
- The costs of the authorization fee represent **CNCAN charges and fees** concerning nuclear safety of **lei 9,928 thousand**.
- **Costs of the environmental tax - lei 102,257 thousand** represent the decommissioning fee for the nuclear units and the final storage of radioactive waste, representing the company's contribution to the Decommissioning Plan by transferring to NRWA EUR 2/MWh of net product, according to the applicable legislation: for permanent storage of radioactive waste - EUR 1.4/MWh of net energy produced and delivered in the system and for decommissioning of nuclear units - EUR 0.6/MWh of net energy produced and delivered in the system. This charge is set in the foreign currency EUR, while its consideration is paid in lei, so that the 2023 budgeted amount is prudently considered so as to cover for the potential exchange rate differences.
- Costs of other taxes and duties of **lei 2,616,954 thousand**; the main taxes and duties are:
 - **Contribution to the Energy Transition Fund of lei 2,508,903 thousand, accounting for 43% of the amount of the total budgeted expenses for 2023.** From 1 September 2022 and until 31 March 2025, during the period of applicability of the provisions of the Government Emergency Ordinance no. 119/2022 amending and supplementing the Government Emergency Ordinance no. 27/2022 on the measures applicable to end customers on the electricity and gas market during 1 April - 31 March 2023, and amending and supplementing certain regulatory acts in the field of electricity (“GEO 119/2022”), electricity producers who trade amounts of electricity on the wholesale market pay a contribution to the Energy Transition Fund in accordance with the methodologies provided in Appendix no. 6 and Appendix no. 6.1.

On 13 December 2022, Law no. 357/2022 approving the Government Emergency Ordinance no. 119/2022 was published in the Official Gazette and came into force on 16 December 2022. Law no. 357/2022 includes a number of amendments to the provisions of the Government Emergency Ordinance no. 119/2022 concerning the contribution to the Energy Transition Fund. Estimation of the amount budgeted for 2023 is made in keeping with the provisions of Law no. 357/2022.

The influence of the legislative changes regarding the calculation methodology and the taxation of the additional income obtained by SNN have a negative effect in the sense of increasing this contribution by lei 1.4 billion in 2023, compared to the rectified level provided for in 2022.

- **Local taxes of lei 101,307 thousand.** Further to amendment of the Interpretation of Financial Reporting Standards "IFRIC 21" *Taxes* in 2017, according to the explanatory notes included in the financial statements, the tax on buildings, land and cars due for 2024 is reflected in the execution of 2023, in December, and, as such, this tax due for 2023 was budgeted in December 2022. When determining the amount of these taxes, an increase in the rates approved by Local Councils for calculation of local taxes was estimated.
- **The ANRE tax of lei 6,366 thousand** represents the estimated contribution due to be paid in 2023 by the Company to ANRE. According to the ANRE Order no. 140/2022, the money contribution related to 2023 is equal to 0.1% of the turnover obtained in 2022;
- **Other taxes of lei 378 thousand**, representing costs related to the non-deductible VAT, the non-resident income tax and other road tolls.

C. Payroll costs of lei 794,638 thousand (+40.8% v 2022 preliminary, +38.5% v 2022 rectified budgeted) include: salary expenses, bonuses (social expenses and other benefits), costs related to mandate contract and other management and control bodies, commissions and committees, and expenses with contributions payable by the employee. These costs are detailed below and are represented in the following chart.



| INDICATORS | Row no. | Provisions for the previous year 2022 | | 2023 | % | % |
|--------------------------------------------------------------------------------------------------------------------|-----------|------------------------------------------------|-----------------------------|----------------|-------------|-------------|
| | | Approved | | | | |
| | | according to OGMS Resolution no. 10/19.10.2022 | Preliminary / Achieved 2022 | | | |
| 0 | 1 | 2 | 3 | 4 | 5=4/2 | 6=4/3 |
| C Personnel expenses | 85 | 573,851 | 564,254 | 794,638 | 138% | 141% |
| C0 Salary-related expenses | 86 | 524,539 | 514,942 | 717,836 | 137% | 139% |
| C1 Salary expenses | 87 | 464,260 | 459,907 | 646,102 | 139% | 140% |
| C2 Bonuses | 91 | 60,279 | 55,035 | 71,734 | 119% | 130% |
| C3 Other personnel expenses | 99 | - | - | - | 0% | 0% |
| C4 Expenses related to the mandate contract and other management and inspection bodies, commissions and committees | 103 | 3,290 | 3,290 | 4,562 | 139% | 139% |
| C5 Expenses with contributions payable by the employer | 112 | 46,022 | 46,022 | 72,240 | 157% | 157% |

Substantiation of the payroll costs for 2023 was done in accordance with the provisions of the Ordinance no. 26/2013 on the strengthening of financial discipline in certain economic operators the sole or control stockholder of which is the State or administrative and territorial units, or where the State or administrative and territorial units hold a majority interest, as follows:

- article 9(1)(b): "When substantiating their income and expenditure budgets, economic operators shall consider including, but without limitation to, the following: [...]; b) compliance with salaries policy objectives set out under the annual State Budget Law;"
- Article 9(3): "The increase in average monthly gross earnings per employee is determined as a percentage of the labour productivity growth index calculated in value or physical units, as applicable. The maximum percentage limit of the increase in the gross average earnings per employee is set out under the annual State Budget law."

I. Increase in salary related expenses under Article 63(1) of Law no. 368/2022

According to Article 63(1) of *Law no. 368/2022 of the 2023 State Budget*, “For 2023, economic operators falling under the scope of the provisions of Article 9(1)(b) and (3) of the Government Ordinance no. 26/2013 *on the strengthening of financial discipline in certain economic operators the sole or control stockholder of which is the State or administrative and territorial units, or where the State or administrative and territorial units hold a majority interest, as approved with amendments by Law no. 47/2014*, as subsequently amended and supplemented, **can provide, in their income and expenditure budget, the increase in the salary related expenses compared to the amount programmed in the latest income and expenditure budget approved in keeping with the legal provisions, as follows:**

- a) with amounts representing increases of salary related expenses related to increase in average prices index projected for 2023;
- b) with amounts representing increases of monthly gross average earnings per employee related to increase in the national gross minimum base salary guaranteed for payment for 2023 and other salary related expenses derived from this;
- c) with amounts representing increases of salary related expenses for their top-up, for the entire year 2023, determined by increases in salaries and bonuses paid in 2022, and/or by the increase in no of personnel in 2022;
- d) with amounts representing increases of salary related expenses determined by granting in 2023 increases in salaries and bonuses provided by regulatory acts or court judgments;
- e) with amounts representing increases of salary related expenses determined by increase in no of personnel in 2023 compared to the figure approved in the previous year as a result of business diversification/expansion;
- f) with amounts representing increases of salary related expenses for their top-up, for the entire year 2023, due to the decrease in the average no of personnel in 2022, by moving them to core, for the economic operators acting in the national industry defence which carry out activities according to the provisions of Law no. 232/2016 on the national defence industry, and amending and supplementing certain regulatory acts, as subsequently amended and supplemented, only for the staff who are moved from core into activity in 2023, and only for the economic operators which have reduced the 2022 approved payroll costs by this amount by rectifying the income and expenditure budget according to the legal provisions.”

Thus, for 2023, the company provides for salary related expenses of **lei 717,836 thousand**, i.e. an increase in salary related expenses by **lei 193,297 thousand** compared to the amount programmed in the latest income and expenditure budget approved according to the legal provisions, and compared to salary related expenses provided in rectified income and expenditure budget for 2022 of **lei 524,539 thousand**, based on Article 63(1), as follows:

- **letter (a)** with amounts representing increases of salary related expenses related to **increase in average prices index** projected for 2023 - **lei 40,285 thousand**

The company provides an increase in the salary related expenses to cover for 80% of the increases in average prices index (inflation) forecasted by the National Forecasting Commission in the 2023 fall forecast, *i.e.*, by 9.6%. Thus, by applying the 9.6% inflation rate to salary related expenses programmed in the latest budget, *i.e.*, lei 524,539 thousand and determining 80% of this increase, we obtain an increase of lei 40,285 thousand.

- **letter (b)** with amounts representing increases of monthly gross average earnings per employee related to **increase in the national gross minimum base salary** guaranteed for payment for 2023 and other salary related expenses derived from this - the Company does not provide any increases in this respect.
- **letter (c)** with amounts representing increases of salary related expenses for their **top-up, for the entire year 2023**, determined by increases in salaries and bonuses paid in 2022, and/or by the increase in no of personnel in 2022 - **lei 67,141 thousand**
- **letter (d)** with amounts representing increases of salary related expenses determined by granting in 2023 **increases in salaries and bonuses provided by regulatory acts** or court judgments - **lei 48,200 thousand**

Order no. 86/2020 approving of the Fundamental Nuclear Safety Rules for nuclear installations ("NSN 21"), a piece of regulation approved by the National Commission for Nuclear Activities Control ("NCNAC"), provides at Article 15(7) the following: "In order to ensure sufficient highly skilled staff for all functions material for nuclear safety, in accordance with the provisions of the Nuclear Safety Rules for training, qualification and authorization of the staff of organizations that operate nuclear installations, as approved by the Order of the President of the National Commission for Nuclear Activities Control no. 108/2017, the authorization holder must put in place appropriate policies and measures for attraction, recruitment, selection, hiring, development and retention of staff, including through competitive remuneration at least equal to the average remuneration paid by similar organizations in the nuclear industry of the European Union, for equivalent positions and duties. It is further recommended that the authorization holder takes measures to ensure the distinct identification of the activities important for nuclear safety in the classification of activities in the national economy."

Considering that the regulatory acts places on the authorization holder the obligation to put in place appropriate measures and policies so as to ensure a competitive pay at least equal to the average remuneration paid by similar organizations in the nuclear industry of the European Union for the functions important to nuclear safety, SNN concluded the RUEC sectoral services contract no. 1159/15.09.2021 with ERNST & YOUNG ("EY") for a study that aims to ensure that SNN complies with the legal rules concerning identification of the positions with important functions for nuclear safety in the organizational structure of the two branches of SNN: Cernavodă Nuclear Power Plant and Pitești Nuclear Fuel Plant. Thus, EY conducted a benchmarking of the salaries paid to the positions identified as important for nuclear safety against similar organizations of the European Union and of other relevant territories, as well as against of the specific living indicators between these countries and Romania; the benchmarking of the salary level for all other positions in the organizational structure of SNN against the trends on the Romanian market, identification of gaps between the salaries paid by SNN and the reference market, quantification of the financial impact related to alignment with the reference market and identification of solutions to manage/counterbalance that impact; recommendations compliant with the national legislation as to the financial discipline obligations of companies with majority State capital.

The study was discussed with the NCNAC experts and was approved by NCNAC – SNN under the minutes of 4 August 2022, which reads, among others, the following:

“NCNAC accepted the fact that the salary benchmarking presented is sufficient at this time to meet the requirements of Article 15(7) of the Rule NSN-21, taking into account the practical difficulties of such a benchmarking and the fact that no regulatory requirements or detailed specifications were included in the NCNAC rules as to how this benchmarking should be implemented.

(...)

Conclusions:

Further to the consultations with NCNAC, the provider made changes to their Salary Benchmarking according to the answers to the comments enclosed to these minutes of the meeting and submitted again to NCNAC the updated version of the Benchmarking. Consequently, NCNAC accepts the Salary Benchmarking as having been prepared in accordance with the applicable legal provisions (NSN-21 Article 15(7))."

According to the EY Study, by analysing a number of 1,681 positions, the impact of updating the level of the base pay is of lei 42,091 thousand. Updating this amount for the current eligible employees would amount to lei 48,200 thousand.

Thus, the projected amount of lei 48,200 thousand represents increases in payroll costs for alignment to NSN 21.

In support of our proposal, we render below the following legal provisions that contain binding requirements for the safe operation of nuclear energy installations:

- Article 11(2) of the Vienna Convention on Nuclear Safety, ratified by the Parliament of Romania under Law no. 43/1995, according to which "Each Contracting Party shall take the appropriate steps to ensure that sufficient numbers of qualified staff with appropriate education, training and retraining are available for all safety-related activities in or for each nuclear installation, throughout its life." Thus, Romania, as a contracting party, is under the obligation not to affect in any way the availability of qualified staff for all activities related to safety in nuclear installations.
- Article 12) of the Vienna Convention on Nuclear Safety, ratified by the Parliament of Romania under Law no. 43/1995, according to which "Each Contracting Party shall take the appropriate steps to ensure that the capabilities and limitations of human performance are taken into account throughout the life of a nuclear installation.";
- Article 6(f) of Directive 2009/71/EURATOM establishing a Community framework for the nuclear safety, as amended by Directive 2014/87/EURATOM according to which "Member States shall ensure that the national framework in place requires: (...) (f) licence holders to provide for and maintain adequate financial and human resources to fulfil their obligations with respect to nuclear safety of a nuclear installation. (...)";
- The provisions of Articles 1 and 2 of the Treaty on the European Atomic Energy Community (EURATOM), according to which, by this Treaty the high contracting parties, including Romania, establish among themselves a European Atomic Energy Community (Community), and it shall be the task of the Community to contribute to the raising of the standard of living in the Member States and to the development of relations with the other countries; in order to attain this mission, the

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Community Romania is a part of, is required to facilitate investment and ensure, particularly by encouraging ventures on the part of undertakings, the establishment of the basic installations necessary for the development of nuclear energy in the Community;

- The primary and secondary domestic regulations, namely Law no. 111/1996 and the rules and guidelines issued by NCNAC, implement the provisions of the Euratom Treaty, the Fundamental Safety Standards issued by the International Atomic Energy Agency, IAEA, the Convention on Nuclear Safety of 5 July 1994, Directive no. 2014/87/EURATOM of the Council of 8 July 2014 amending Directive 2009/71/Euratom establishing a Community framework for the nuclear safety of nuclear installations.
 - The Fundamental Nuclear Safety Rules for Nuclear Installations, as approved by Order no. 86 of 30 March 2020 issued by NCNAC (NSN21) restate the obligation of the license holder to provide human resources: The licence holder is required to assess, provide for and maintain adequate financial and human resources to fulfil their obligations with respect to nuclear safety of a nuclear installation.
 - The obligations of the nuclear operating license holder are supplemented by the specific requirements on professional training of workers, Article 12(5) of NSN21, providing that: d) shall ensure operation, supervision, maintenance, testing and inspections in operation of the NISSC in accordance with the applicable standards and regulations and with the best practices in the nuclear industry, and shall address, in the shortest possible time, any issues related to the unavailability or failure of the NISSC with nuclear safety functions or with an impact on the reliable operation of the nuclear installation; in this regard, it shall maintain and develop both its technical capabilities and its material and staff resources, [...]; f) shall train and qualify its own staff in accordance with the national regulations and with the highest standards of excellence and best practices in the nuclear industry at an international level, through both in-house training programme, as well as technical meetings, workshops, benchmarking reviews and training courses offered by international associations of organizations that operate nuclear installations and other relevant professional associations.
 - SNN manages the national critical infrastructure, according to the provisions of the Government Emergency Ordinance no. 98/2010, and must ensure the continuity in electricity production.
- **letter (e)** with amounts representing increases of salary related expenses determined by **increase in no of personnel in 2023** compared to the figure approved in the previous year as a result of business diversification/expansion – **lei 37,671 thousand**
The company expects an increase in effective no of personnel by 366 people in 2023, for business diversification and expansion purposes, based on the fundamentals presented below in the chapter “**Necessary Increase in No of Personnel**”.
- **letter (f)** with amounts representing increases of salary related expenses for their top-up, for the entire year 2023, due to the decrease in the average no of personnel in 2022, by moving them to core, for the economic operators acting in the national industry defence which carry out activities according to the provisions of Law no. 232/2016 on the national defence industry, and amending and supplementing certain regulatory acts, as subsequently amended and supplemented, only for the staff who are moved from core into activity in 2023, and only for the economic operators which have reduced the 2022

approved payroll costs by this amount by rectifying the income and expenditure budget according to the legal provisions - not applicable to the Company.

Necessary Increase in No of Personnel

In application of the provisions of Article 63(1)(e) of Law no. 368/2022 - the 2023 State Budget Law, the staffing needs to cover for the staffing scheme, initiated in 2021 and which shall continue in 2023, **further to business diversification and expansion**, taking into account:

- ✓ the provisions of Law no. 200/16.07.2021, ratifying the Cooperation Agreement Towards the Cernavodă Nuclear Power Projects and the Civil Nuclear Power Sector in Romania between the Government of Romania and the US Government, signed in Bucharest on 9 December 2020 and in Upper Marlboro on 4 December 2020;
- ✓ the provisions of Article 25(1)(e) of Law no. 111/1996 on the safe performance, regulation, authorization and control of nuclear activities, according to which SNN is under the obligation to ensure and maintain adequate human and financial resources in order to fulfil its obligations under this law, including in terms of observance of the conditions and requirements of the authorizations and rules in force, issued on the basis of this law;
- ✓ the provisions of Article 10 of the Rules for Authorization of Nuclear Installations (NSN-22), according to which the annual operating costs must duly consider the need for investments to maintain and continuously improve the nuclear safety, including through upgrading and retrofitting activities, as well as the need to provide sufficient qualified staff, who master the necessary skills and competences, for all important nuclear safety activities;
- ✓ the provisions of Article 12, 14, 15, 16 and 17 of the Fundamental Nuclear Safety Rules for Nuclear Installations (NSN-21) which contain obligations as to provision of human and financial resources for performance of activities important for nuclear safety, including in relation to attraction, recruitment, selection, employment, development and retention of staff all functions important to nuclear safety, including in terms of competitive salaries equal at least to the average remuneration paid by similar organizations in the nuclear industry of the European Union for equivalent functions and duties;
- ✓ the provisions of Article 11(4) and (5) of the Nuclear Safety Rules concerning supervision, maintenance, testing and inspections in operation of nuclear installations (NSN-16) with reference to the staff due to be provided in the unit in order to put in place standards and technical specifications, so that the works carried out by third parties can be independently assessed and checked;
- ✓ the provisions of Article 48 of the Rules on the deterministic nuclear safety analyses for nuclear installations (NSN-24), which regulate the necessary skills for performance, review and updating of the deterministic nuclear safety analyses, these requiring sufficient competent staff who understand the design and authorization bases of the nuclear installation and are qualified for preparation, performance, development, revision and updating of the said analyses and for their independent verification, both for design basis analysis and analysis of the conditions for expansion of the design basis;
- ✓ the provisions of Article 14, Article 15, Article 16 and Article 17 of the Rules on the nuclear safety policy and independent assessment of nuclear safety (NSN-20), which regulate the staff with responsibilities for the independent assessment of nuclear safety.

SNN is the critical infrastructure, a strategic facility of national interest, whose continuous and safe operation in terms of the National Energy System and nuclear safety is vital for the national economy, the environment and the population, being the only producer of electricity from nuclear sources and ensuring approx. 20% of the national electricity demand. The use of nuclear installations for production of

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electricity requires strict compliance with the nuclear safety legislation, including with the rules issued by the National Commission for Nuclear Activities Control (NCNAC).

In 2022, SNN had to supplement the number of positions provided in the organizational structure (organizational chart) of the company from 2,509 positions, as approved in 2021, up to 2,681 positions, under the BoD Decision no. 223/21.12.2021, and starting with 2023, under the BoD Decision no. 231/29.11.2022, an increase by 33 positions in the number of positions in the organizational structure of SNN was provided, which shall be gradually occupied in 2023, with the total staffing at the end of 2023 due to reach 2,714 people across the entire company. At the end of 2022, the organizational structure was occupied with 2,348 employees, and for the end of 2023, the occupation of the organizational structure is expected, up to 2,714 people, so that, in 2023, employment of 366 people is envisaged.

The addition of staff is substantiated by the need to provide adequate human resources **to support the important business expansion, i.e., those related to the Company's major development projects:**

- ✓ Refurbishment of Unit no. 1 of Cernavodă NPP and the development of the tritium removal plant;
- ✓ Construction of Units no. 3 and no. 4 of Cernavodă NPP in line with the provisions of Law no. 200/16.07.2021 ratifying the Cooperation Agreement Towards the Cernavodă Nuclear Power Projects and the Civil Nuclear Power Sector in Romania between the Government of Romania and the US Government
- ✓ Compliance with NCNAC's requests under the letter no. 3882/2021, registered with SNN under no. 9353/2021, which asked for supplementation of the staffing of Cernavodă NPP Branch, in accordance with the provisions of Article 25 of Law no. 111/1996, the provisions of Article 11, Article 14, Article 15 and Article 16 of NSN 21, rev. 1, the provisions of Article 15 of NSN 05, and the provisions of Article 29 and Article 30 of NSN 07.

To these adds the need to comply with the letter of expectations issued by the Ministry of Energy under no. 212228/21.11.2022, registered with SNN under number 13608/21.11.2022 on the establishment of a group structure to meet the needs for:

- ✓ Centralization, uniformization and efficiency of the business processes, ensuring the resources needed for smooth administrative functioning and in accordance with legal requirements and nuclear safety rules, in the context of the company's business diversification;
- ✓ The need for continuous improvement of the organization's performance, which requires an analysis of various factors that can have an impact on the way activities are carried out and which, directly or indirectly, can give rise to changes both in performance of the activities and in the organization's structure;
- ✓ The need for development in relation to the company's involvement in the SNN international and strategic business relations;
- ✓ Punctual monitoring and ensuring compliance with the status of works and/or activities in progress in the specialized departments.

Also, there is the need for compliance to ensure the activities provided by the following regulatory acts issued by NCNAC at the end of 2019 and in 2020, which contain a number of additional provisions for alignment with the international nuclear standards (e.g. rules NSN-24, NSN-26 – Rules on the interfaces between nuclear safety, radiological security, physical protection, protection against cyber threats and control of nuclear safeguards, published in the Official Gazette of Romania, Part I no. 989/09.12.2021; NSN-07, NSN- 16, NSN-21, NSN-27 – Rules on the use of standards to assess and continuously improve nuclear

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safety for nuclear power plants, published in the Official Gazette of Romania, Part I no. 546/25.06.2020; GSN-10 – Nuclear Safety Guidelines for the analyses that use time-related assumptions relevant to the management of the nuclear installation aging, published in the Official Gazette, Part I no. 223/19.03.2020).

The constraints of the labour market, as well as the migration phenomenon with an emphasis on the generation of young specialists, and the inflexible and bureaucratic domestic procedural framework have delayed the hiring of new employees during the reference period. Urgent actions were taken to render the recruitment and selection process more effective by updating the internal procedures involved, mass recruitment and calling on specialized recruitment services; thus, a part of the preliminary hiring volume due in 2022 was extended to 2023, and this led to an average staffing the end of 2022 of 2,224 people, compared to the projected figure value (rectified 2022 IEB) at the end of the year of 2,250 people. For 2023, an average staffing of 2,560 people is projected, *i.e.*, an increase by 15.1% compared to the 2022 actual average staffing.

II. Compliance with the provisions of Article 63(3)-(7) of Law no. 368/2022

Article 63(3)-(7) of Law no. 368/2022 of the 2023 State Budget provides as follows:

"(3) Economic operators can increase the average gross monthly earnings per employee up to the limits sets out at paragraph (1), **provided that its growth index does not exceed the labour productivity growth index calculated in value or physical units**, as applicable.

(4) For determination of the average gross monthly earnings per employee, as provided at paragraph (3), in order to set its growth index, the following costs **are not taken into account**:

- a) amounts representing increases in the gross average earnings per employee further to the increase in the national gross minimum base pay guaranteed for payment for 2023 and other payroll costs related thereto;
- b) amounts representing increases in the salary related expenses for their top-up, for the entire year 2023, determined by salaries and bonuses paid in 2022, and/or by the increase in no of personnel in 2022;**
- c) amounts representing increases in the salary related expenses determined by granting of increases in salaries and bonuses provided in regulatory acts or court judgments in 2023.

(5) For the determination of labour productivity, as provided at paragraph (3), in order to set its growth index, the operating income is adjusted as follows:

- a) **the total operating income is reduced by the operating income obtained further to conjunctural situations or activities, and which are no longer found either in the previous year or in the current year;**
- b) the operating income of the previous year, determined on the basis of the prices/tariffs set out under the regulatory/administrative acts, for the benchmarking of labour productivity, shall be recalculated using the prices used to determine the operating income of the current year, where there is a decrease in prices/rates.

(6) The growth index of the average gross monthly earnings per employee recalculated according to the provisions of paragraph (4) and the labour productivity growth index recalculated according to the provisions of paragraph (5) is determined by referencing the 2023 programmed figure to the 2022 actual figure.

(7) The economic operators provided at paragraph (1) who, in 2022, observed losses and/or overdue payments, as applicable, may provide in their 2023 income and expenditure budget the increase of payroll costs compared to the amount programmed in the latest income and expenditure budget approved according to the legal provisions; however, provided that the losses and/or outstanding payments observed in the previous year, as applicable, are reduced."

In order to determine the growth index of labour productivity calculated in value units, in order to correlate the growth index of monthly gross earnings per employee with it, the labour productivity for 2022 was adjusted in accordance with Article 63(5)(b), as follows:

- **Labour productivity adjustment according to the provisions of Article 63(5)(a)**

Company's operating income includes mainly electricity sales. In 2023, was established a centralized electricity acquisition mechanism, under Law no. 357/2022, through which the Company is obliged to sell in 2023 to electricity market operator OPCOM a significant part of produces electricity, at regulated price of 450 RON/MWh.

In 2023, electricity sales were realized under a context that does not exist in 2022 anymore, respectively electricity sales price were obtained on free market; this conjunctural situation from 2022 does not exist in 2023 anymore, as the centralized electricity acquisition mechanism was established, through which a regulated price of 450 RON/MWh was imposed to the Company, for 48,36% from sold electricity quantity.

Electricity sales obtained in 2022 following this situation no longer existing in 2023 are of lei 767.112 thousand, determined by reducing weighted average price obtained by the company in 2022 from 600,3 RON/MWh to 450 RON/MWh for 5.103.873 MWh (representing 48,36% out of total sold quantity in 2022, of 10.553.914 MWh).

Thus, in order to determine adjusted labour productivity, operating income for 2022 is reduced with lei 767.112 thousand, from lei 6.437.790 thousand, to lei 5.670.678 thousand; dividing the result to average no of employees for 2022 of 2.224 employees, an adjusted labour productivity of 2.550 thousand lei/employee results.

Growth index for labour productivity is 13%, from 2.550 thousand lei/employee in 2022, adjusted according to the above fundamentals, to 2.884 thousand lei/employee in 2023.

Adjusting the electricity sales realized in 2022, which compose mainly operating income for 2022 which are base for computing productivity, is a complex adjustment which results from comparing the market context from 2022 to market context in 2023, respectively how electricity price was freely formed on the market in 2022, context which no longer exists in 2023, following the application in 2023 of centralized electricity acquisition mechanism ("MACEE"). In this respect, the Company made the necessary diligences in order to apply correctly the provisions of annual state budget law for 2023.

Growth index for monthly gross average earnings per employee (determined based on salary related expenses adjusted according to OUG 26/2013 and annual state budget law) is of 9%, under the growth index adjusted labour productivity of 13%, thus the financial indicators programmed through the current budget respect the provisions of art 63 (1).

We mention that the Company does not forecast losses and/or due payments.

In view of the above considerations, the amount of **lei 794,638 thousand** is projected for section C. **“Payroll costs”** of the 2023 IEB, with the following structure:

| INDICATORS | Row no. | Provisions for the previous year 2022 | | | 2023 | % | % |
|------------|-----------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------------|-----------------------------|----------------|-------------|-------------|
| | | Approved | | Preliminary / Achieved 2022 | | | |
| | | according to OGMS Resolution no. 10/19.10.2022 | | | | | |
| 0 | 1 | 2 | 3 | 4 | 5=4/2 | 6=4/3 | |
| C | Personnel expenses | 85 | 573,851 | 564,254 | 794,638 | 138% | 141% |
| C0 | Salary-related expenses | 86 | 524,539 | 514,942 | 717,836 | 137% | 139% |
| C1 | Salary expenses | 87 | 464,260 | 459,907 | 646,102 | 139% | 140% |
| C2 | Bonuses | 91 | 60,279 | 55,035 | 71,734 | 119% | 130% |
| C3 | Other personnel expenses | 99 | - | - | - | 0% | 0% |
| C4 | Expenses related to the mandate contract and other management and inspection bodies, commissions and committees | 103 | 3,290 | 3,290 | 4,562 | 139% | 139% |
| C5 | Expenses with contributions payable by the employer | 112 | 46,022 | 46,022 | 72,240 | 157% | 157% |

C0) Payroll costs of **lei 717,836 thousand** (+39.4% v 2022 projected actual, +36.9% vs 2022 rectified budgeted) consist of salary expenses (C1 – lei 646,102 thousand) and bonuses (C2 – lei 71,734 thousand), detailed as follows:

| INDICATORS | Row no. | Provisions for the previous year 2022 | | | 2023 | % | % |
|------------|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|---------|-----------------------------|---------|-------|------|
| | | Approved | | Preliminary / Achieved 2022 | | | |
| | | according to OGMS Resolution no. 10/19.10.2022 | | | | | |
| 0 | 1 | 2 | 3 | 4 | 5=4/2 | 6=4/3 | |
| C0 | Salary-related expenses (Row 86 = Row 87 + Row 91) | 86 | 524,539 | 514,942 | 717,836 | 137% | 139% |
| C1 | Salary expenses (Row 87 = Row 88 + Row 89 + Row 90), of which: | 87 | 464,260 | 459,907 | 646,102 | 139% | 140% |
| | a) base salaries | 88 | 336,536 | 332,183 | 466,668 | 139% | 140% |
| | b) bonuses, premiums and other extra payments related to the base salary (according to CCM) | 89 | 115,699 | 115,699 | 162,541 | 140% | 140% |
| | c) other extra payments (according to CCM) | 90 | 12,025 | 12,025 | 16,893 | 140% | 140% |
| C2 | Bonuses Row 91 = Row 92 + Row 95 + Row 96 + Row 97 + Row 98), of which: | 91 | 60,279 | 55,035 | 71,734 | 119% | 130% |
| | a) social expenses provided under art. 25 of Law no. 227/2015 on the fiscal code*), as further amended and supplemented, out of which: | 92 | 14,424 | 9,987 | 14,500 | 101% | 145% |
| | - nursery coupons according to Law 193/2006, as further amended; | 93 | - | - | - | 0% | 0% |
| | - vouchers for social expenses according to Law 193/2006, as further amended; | 94 | - | - | - | 0% | 0% |
| | b) meal coupons; | 95 | 1,339 | 986 | 1,802 | 135% | 183% |
| | c) vacation vouchers; | 96 | 5,978 | 5,609 | 8,154 | 136% | 145% |
| | d) expenses with the employees' participation in the profit obtained in the previous year | 97 | 21,000 | 20,742 | 27,000 | 129% | 130% |
| | e) other expenses according to CCM. | 98 | 17,538 | 17,711 | 20,278 | 116% | 114% |

C1) Salary expenses amounting to **lei 646,102 thousand**, (+40.5% v 2022 projected actual, +39.2% v 2022 rectified budgeted)

The main elements taken into account when sizing salary expenses are the following:

- ✓ the level of expenditure on salaries required for existing staff at the beginning of the year, taking into account staff salaries according to the Collective Bargaining Agreement of SNN in force, necessary to respond mainly to the need to retain qualified and highly qualified staff;
- ✓ the level of expenditure on salaries necessary for additional staff to be employed in 2023 to maintain the high level of expertise and qualification, in particular within the nuclear power plant and to provide the necessary expertise for the new developments and investments required for the nuclear power plant, as detailed in this note;

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- ✓ the increase in expenditure on seniority and loyalty bonuses as a result of the advancement to higher seniority and seniority steps as regards the loyalty bonus, respectively, according to the provisions of the Collective Bargaining Agreement, as well as ensuring all benefits provided for by the Collective Bargaining Agreement in force;
- ✓ setting up a reward fund and an advancement/promotion fund for staff in order to increase staff motivation and loyalty.

This increase is reflected both within expenditure on basic salaries (line 88), expenditure on increments, bonuses and other allowance corresponding to the basic salary (according to the Collective Bargaining Agreement) (line 89), as well as within other bonuses (according to the Collective Bargaining Agreement) (line 90), according to the provisions of the Collective Bargaining Agreement applicable at the level of SNN.

Therefore, the budgeted level requested for year 2023 ensures the necessary expenditure on salaries for the current staff, staff expected to be employed by the end of the year, according to the provisions of the applicable Collective Bargaining Agreement.

We believe the loss of staff and expertise is a significant issue, especially for the NCNAC-licensed staff who operate the production units at Cernavodă NPP, due to a significant number of employees reaching their statutory retirement age both in 2022 and over the next 3 years. SNN adopted promptly mitigating measures, succeeding by attracting and training a reserve of personnel, to avoid the situation of lack of essential personnel necessary for the safe operation of the production capacities and consequently the loss of the operating license of the nuclear power plant.

Next, considering the NCNAC Rule NSN21 published in the Official Gazette no. 597/08.07.2020, and the requirement to pay the critical staff for nuclear safety a motivating remuneration at the European average level, SNN contracted a study of the European market for the nuclear field, which study was registered with NCNAC under the letter no. 14648/14.12.2022; this study certifies a compensation gap of lei 43 million for a calendar year, for SNN employees, compared to the European average pay for similar positions in the nuclear industry.

By the specificity of the nuclear industry and the uniqueness of its business objective, Cernavodă NPP does not have the capacity to regenerate the loss of critical staff at the current pace when, for example, the training of a NCNAC authorized specialist lasts 5 years for a position of Main Nuclear Operator Command Room (ONPCC) or even 7 years for Shift Chief Dispatcher (DST) or a main specialist engineer in sensitive areas of NPP exploitation.

It is necessary to counteract the ageing of the labour force with early employment programs and the training of specialized personnel, thus internship, dual school, apprenticeship and scholarship programs are being developed both at university and vocational school level.

SNN is the only nuclear power plant operator in Romania, which makes it very difficult to find replacements for key positions, given the competition from similar projects being developed in other countries. Even if the number of these key positions is not large, they are vital in terms of the required expertise and quality of work. Succession, mentoring and rotation programs are established to ensure specialist training and knowledge transfer.

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The duration of training for various specialists is high, and long-term retention requires benefits and a clear career path that should include advancement/promotion. Without these, staff demotivation is imminent.

C2) Bonuses of lei 71,734 thousand (+30.3% v 2022 projected actual, +19.0% v 2022 rectified budgeted)

The following expenditures were disposed at this sub-section:

- **social expenditure** (line 92) amounting to **lei 14,500 thousand**, being estimated at the limit of a rate of 5% applied on the amount of the cost of salaries and wages, up to within the limit of deductibility of these costs, according to Law no. 227/2015 *on the Fiscal Code*.
- **meal vouchers** (line 95) – **lei 1,802 thousand**; according to the Collective Bargaining Agreement, SNN grants food vouchers to its employees at the maximum amount set out under the law. Pursuant to the provisions of Law no. 187/2022 amending Law no. 65/2018 on the granting of value tickets, the maximum amount of a food voucher is lei 30.00;
- **holiday vouchers** (line 96), amounting to **lei 8,154 thousand**, in observance of the legal provisions. The actual Collective Bargaining Agreement disposes the possibility to grant holiday vouchers, depending on the company’s financial possibilities;
- **expenditure on participation of employees in the profit** obtained by the Company in the previous year (line 97) – **lei 27,000 thousand**, according to the amount approved in the 2022 IEB, and in observance of the legal provisions;
- **expenditure on benefits in kind** granted to employees (electricity and heat, rents for job accommodation) (line 98) – budgeted amounting to **lei 20,278 thousand**.

C3) Other expenditure on staff - this sub-section provides for expenditure on compensatory payments in respect of staff made redundant, expenditure on salary entitlements due on the basis of court decisions and expenditure of a salary nature relating to restructuring, privatization, special administrators, other commissions and committees. Amounts for this section are not disposed during year 2023.

C4) Costs under contract of mandate and for other management and control bodies, commissions and committees amounting to **lei 4,562 thousand**

| INDICATORS | Row no. | Provisions for the previous year 2022 | | 2023 | % | % |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------------------------------------------------------------|--------------------------------|-------|-------|-------|
| | | Approved according to OGMS Resolution no. 10/19.10.2022 | Preliminary / Achieved 2022 | | | |
| 0 | 1 | 2 | 3 | 4 | 5=4/2 | 6=4/3 |
| C4 Expenses related to the mandate contract and other management and inspection bodies, commissions and committees (Row 103 = Row 104 + Row 107 + Row 110 + Row 111), of which: | | 3,290 | 3,290 | 4,562 | 139% | 139% |
| | 103 | | | | | |
| a) for managers/management | 104 | 1,557 | 1,557 | 2,723 | 175% | 175% |
| -fixed component | 105 | 1,002 | 1,002 | 1,243 | 124% | 124% |
| -variable component | 106 | 555 | 555 | 1,480 | 267% | 267% |
| b) for the Board of Directors / Supervision Board, of which: | 107 | 1,732 | 1,732 | 1,839 | 106% | 106% |
| -fixed component | 108 | 915 | 915 | 1,291 | 141% | 141% |
| -variable component | 109 | 817 | 817 | 548 | 67% | 67% |
| c) for auditors | 110 | - | - | - | 0% | 0% |
| d) for other commissions and committees created according to the law | 111 | - | - | - | 0% | 0% |

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When establishing the level of expenditure corresponding to contracts of mandate, the following were considered:

- The provisions of the contracts of mandate celebrated by the company with the members of the Board of Directors and with executive managers;
- The provisions of Articles 37, 38 and 39 of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, as well as the provision of the Government Decision no. 722/2016 approving the methodological rules for implementation of certain provisions of the Government Emergency Ordinance no. 109/2011;
- The provisions of the OGMS Resolution no. 6 of 10 August 2022 approving the renewal of the offices of directors for a term of office of 4 years for three members (Mr. Chirica Teodor - non-executive director, Mrs. Popescu Elena - non-executive director, and Mr. Ghita Cosmin - executive director); the form of the administrators' mandate contract, which also contains their remuneration; the initiation of the selection procedure for the members of the Board of Directors of National Company Nuclearelectrica SA (vacant offices), according to the provisions of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, as subsequently amended and supplemented.

A. Contracts of mandate concluded with managers (line 104) - lei 2,723 thousand

For 2023, costs under contracts of mandate concluded by the Company with the CEO were provided and estimated, for the CFO position, at the total amount of lei 2,723 thousand. The company has concluded mandate contracts with the CEO and the CFO.

At the beginning of 2023, the executive management has the following membership:

| Position | Appointment Decision of the BoD | Term of provisional contract of mandate | Term of long-term contract of mandate (4 years) |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------|
| Chief Executive Officer | Decision of the BoD no. 2/04.02.2019 Decision of the BoD no. 154/10.08.2022 | - | 11.02.2019 - 11.02.2023 12.02.2023 – 12.02.2027 |
| Chief Financial Officer | BoD Decision no. 153/10.08.2022 for provisional contract BoD Decision no. 238/29.11.2022 for extension of the provisional contract by 2 months | 12.08.2022 – 12.12.2022 13.12.2022 – 13.02.2022 | |

Therefore, fixed and variable allowances were provided for year 2023 for managers with a contract of mandate, as follows:

a) fixed component of managers with contract of mandate (line 105) - lei 1,243 thousand

We point out that the monthly gross fixed allowances for executives, as provided in the mandate contracts signed by the Company with them, are determined according to the provisions of Article 38 of the Government Emergency Ordinance no. 109/2011, namely:

- par. (1): "the remuneration of managers shall be determined by the board of directors and may not exceed the level of remuneration established for the executive members of the board of directors. It is the only form of remuneration for managers who are also directors.";
- par. (2): "the remuneration shall consist of a fixed monthly allowance established within the limits provided for at Article 37(3) and a variable component consisting of a share in the net profit of the

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company, grant of shares, stock-options or an equivalent scheme, a pension scheme or another form of remuneration based on performance indicators”.

Article 37(3) of the Government Emergency Ordinance no. 109/2011 provides: “the remuneration of the executive members of the board of directors (...) shall consist of a fixed monthly allowance which may not exceed 6 times the average gross monthly salary for the last 12 months for the activity carried out according to the main object of activity registered by the company, at class level according to the classification of activities in the national economy, communicated by the National Institute of Statistics prior to the appointment, and a variable component. The variable component will be based on financial and non-financial performance indicators, negotiated and approved by the general meeting of shareholders, different from those approved for non-executive directors, determined according to the methodology (...)”.

Therefore, the gross fixed allowance shall be paid to 2 executives, for all 12 months of 2023, in the amount of lei 1,243 thousand.

| Position | Period | Gross fixed component / month | Gross fixed component / year |
|-------------------------|-------------------------|-------------------------------|--------------------------------------------------|
| Chief Executive Officer | 01.01.2022 – 11.02.2022 | 37,077 | 1 month and 8 days x lei 37,077 = lei 51,908 |
| | 12.02.2022 – 31.12.2022 | 53,778 | 10 months and 20 days x lei 53,778 = lei 570,047 |
| Chief Financial Officer | 01.01.2022 – 12.02.2022 | 37,077 | 1 month and 9 days x lei 37,077 = lei 53,762 |
| | 13.02.2022 – 31.12.2022 | 53.778*) | 10 months and 15 days x lei 53,778 = lei 567,358 |
| TOTAL | | | lei 1,243,075 |

*) This cannot exceed the remuneration of the executive members of the Board of Directors, according to Article 38(1) of the Government Emergency Ordinance no. 109/2011, *i.e.*, an amount equal to the remuneration of the CEO (executive director) was estimated for 2023

b) variable component of managers with contract of mandate (line 106) - lei 1,480 thousand

The variable component provided for in the contracts of mandate of managers is conditioned upon the fulfilment of the performance indicators established by the contracts of mandate and approved by Decision of the Board of Directors no. 54/10.04.2019. Annual targets for all the 4 years of the term of office have been established for these indicators. These targets are correlated to the management plan of the Board of Directors, including the management structure approved by the BoD Decision no. 33/07.03.2019, according to the provisions of Article 30(1) of the Government Emergency Ordinance no. 109/2011 and provisions of Article 36 (1) of the Government Emergency Ordinance no. 109/2011.

When determining the level of the variable component, the provisions of the contracts of mandate were considered, which established for each manager a gross annual variable component as follows:

Chief Executive Officer (CEO)

For the period 1 January 2023 – 11 February 2023, the annual variable component for 2023 is determined from the value of the annual variable component in the gross amount of lei 222,454, pro-rata to the 42 days of the mandate related 2023, out of the 365 days of 2023; thus, the amount for the period 1 January 2023 – 11 February 2023 of the variable component for 2023 is: $222,454 \times 42 / 365 = \text{lei } 25,599$.

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For the period 12 February 2023 – 31 December 2023, the annual variable component provided in the mandate contract no. 85/10.08.2022 corresponds to 2.5 times the amount of the annual gross allowance, namely $2.5 \times 53,778 \times 12 = \text{lei } 1,613,340$. Thus, the variable component determined pro-rata to the 323 days related to the mandate, out of the 365 days of the year, resulting in: $1,613,340 \times 323/365 = \text{lei } 1,427,696$

Thus, for the entire 2023, the amount related to the gross annual variable component, related to the two mandate contracts of the CEO, is: $\text{lei } 25,599 + \text{lei } 1,427,696 = \text{lei } 1,453,295$.

Chief Financial Officer (CFO)

When estimating the amount of the gross annual variable component, the provisions of Article 38(1) of the Government Emergency Ordinance no. 109/2011, according to which the remuneration of executives with a mandate contract cannot exceed the remuneration of the executive members of the Board of Directors.

For the period 1 January 2023 – 13 February 2023, the annual variable component for 2023 is determined from the value of the annual variable component in the gross amount of lei 222,454, pro-rata to the 44 days of the mandate related 2023, out of the 365 days of 2023; thus, the amount for the period 1 January 2023 – 11 February 2023 of the variable component for 2023 is: $222,454 \times 44/365 = \text{lei } 26,818$.

For the period 14 February 2023 – 31 December 2023, the annual variable component provided in the mandate contract no. 85/10.08.2022 corresponds to 2.5 times the amount of the annual gross allowance, namely $2.5 \times 53,778 \times 12 = \text{lei } 1,613,340$. Thus, the variable component determined pro-rata to the 321 days related to the mandate, out of the 365 days of the year, resulting in: $1,613,340 \times 321/365 = \text{lei } 1,418,856$. This amount of lei 1,418,856, being related to a vacant office, is provided at chapter D (line 124) - "provisions related to mandate contract"

Thus, for the entire year 2023, the amount related to the gross annual variable component of the CFO is: $\text{lei } 26,818$ (line 106) + $\text{lei } 1,418,856$ (line 124) = $\text{lei } 1,445,674$.

The variable component of the remuneration of executives under contracts of mandate, of lei 1,480,113 = lei 1,453,295 + lei 26,818, is granted conditional upon simultaneous attainment of the key performance indicators set out in the respective contract of mandate concluded by the Company with the executives.

B. Contracts of mandate concluded with Board of Directors/administrators (line 107) - lei 1,839 thousand

For 2023, costs related to the management contracts concluded by the Company with three the members of the Board of Directors the offices of whom renewed under the OGMS Resolution no. 6 of 10 August 2022, related to the temporary mandate contracts concluded by the Company with the four members of the Board of Directors, as well as related to the four vacant offices pending selection, according to the Government Emergency Ordinance no. 109/2011, the total amount is lei 1,839 thousand.

At the beginning of 2023, the Board of Directors has the following membership:

| Position | Appointment documents | Term of provisional contract of mandate | Term of long-term contract of mandate (4 years) |
|-----------------------------------------------|----------------------------------------|-----------------------------------------|-------------------------------------------------|
| 3 x members with a 4-year mandate contract *) | OGMS Resolution no. 6/10.08.2022 | - | 29.09.2022 – 29.09.2026 |
| 3 x members with a temporary mandate contract | OGMS Resolution no. 10/19.10.2022 | 19.10.2022 – 19.02.2022 | - |
| 1 x members with a temporary mandate contract | Decision of the BoD no. 237/29.11.2022 | 29 November 2022 – OGMS meeting | |

*) of which one executive director, who also holds the position of General Manager (for the executive director, the only remuneration granted is that of executive director, according to the provisions of Article 38(1) of the Government Emergency Ordinance no. 109/2011

Under the OGMS Resolution no. 6/10.08.2022, the following were approved:

- approval of the procedure applied to select the members of the SNN Board of Directors, according to the provisions of the Government Emergency Ordinance 109/2011 for vacant offices (4 offices);
- approval of the authorization of the SNN Board of Directors to perform the selection procedure for the vacant offices in the Board of Directors of National Company Nuclearelectrica S.A.;
- the monthly gross allowance of non-executive directors, according to the provisions of Article 37(1) and (2) of the Government Emergency Ordinance no. 109/2011, equal to two times the average gross monthly salary earnings for the last 12 months for the activity carried out according to the main scope of business registered by the company, at the class level according to the classification of activities in the national economy, as communicated by the National Institute of Statistics prior to appointment, *i.e.* a monthly gross amount of lei 17,926;
- the amount of the variable component of the annual remuneration of non-executive directors amounting to 12 monthly fixed allowances.

Therefore, fixed and variable allowances were provided for year 2023 for directors with a contract of mandate, as follows:

- a) **fixed component of contracts of mandate concluded with directors (line 108) - lei 1,291 thousand**, calculated as follows:

lei 1,290,672 = lei 17,926 x 6 non-executive directors x 12 months - the gross fixed allowance for 6 non-executive directors, for the entire 2022.

According to the contract provisions, the fixed monthly allowance shall be paid to directors under their respective mandate contract in the last business day of the month this is due for, regardless of the number of meetings in that month.

- b) **variable component of contracts of mandate concluded with directors (line 109) – lei 548 thousand**, according to the GMS Resolution no. 6/10.08.2022 and determined according to the provisions of Article 37(2) of the Government Emergency Ordinance no. 109/2011, regulating the fact that the amount of the variable component of non-executive members cannot exceed the maximum of 12 monthly fixed allowances, namely the gross fixed allowance calculated for the entire 2023.

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The value of the variable component, recorded at line 109 of Appendix 2, was determined for the 7 members of the Board of Directors existing on the 2023 IEB preparation date, as follows:

lei 548,092 = lei 17,926 x 2 non-executive directors x 12 months (for 4-year contracts) + 17,926 x 12 months x 50/365 days x 4 non-executive directors (for non-executive directors with a temporary mandate).

The amount of the variable component for those four vacant offices in the Board of Directors was entered at Line 124 of Appendix 2 „Provisions related to the contract of mandate” because these two items are not covered by the Government Emergency Ordinance no. 109/2011 on the 2023 IEB preparation date. The value of the variable component for these four vacant offices amounts to lei 742 thousand, and was determined as follows:

742,136 = 17,926 x 12 months x 315/365 days x 4 non-executive directors

The estimates for years 2024 and 2025 of Appendix 1, for the entire section C4 *Expenditure corresponding to the contract of mandate and to other management and control bodies, commissions and committees* are determined considering the fixed and variable allowances established by the contracts of mandate, wholly for 12 months every year, namely lei 7,099 thousand.

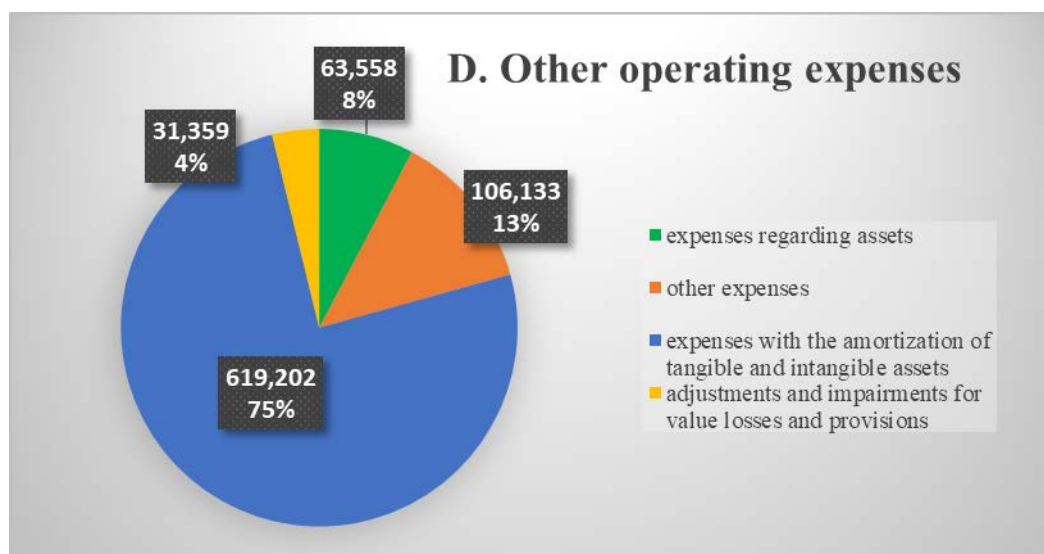
C5) Costs on contributions due by employer amounting to lei 72,240 thousand.

This sub-section establishes expenditures on:

- ✓ the insurance contribution for work;
- ✓ the social security contribution payable by the employer for employees working under special and exceptional working conditions;
- ✓ the contribution for disabled persons not hired;
- ✓ the unit contribution to voluntary pension funds;
- ✓ monthly allowance for teleworking days granted according to the provisions of the Fiscal Code;
- ✓ the consideration of the medical insurance policy and healthcare subscription, according to the CBA, reimbursed up to the deductibility limit set out under the Fiscal Code of EUR 400 per year per employee,

Thus, further to application of the legal provisions, the costs of the contributions due by the employer are of lei 72,240 thousand, i.e., 57.0% higher than the 2022 projected actual.

D. Other operating expenses of lei 820,352 thousand (+4.7% v 2022 preliminary actual, -1.6% v 2022 rectified budgeted) include: costs related to non-current assets, costs for depreciation of tangible and intangible non-current assets, adjustments and depreciations for impairment and provisions (the provision for the costs of the intermediate storage of burnt fuel, the provision for radioactive and non-radioactive waste, the provision for pensions, the provision for participation of employees to profit) and other costs (annual contributions to governmental and non-governmental organizations, consideration of electricity for the balancing market, etc.).



| | | | | | - thousand lei - | | |
|---------------------------------------------------------------------|---------|------------------------------------------------|----------------|-----------------------------|------------------|-------------|---|
| D - Other operating expenses | Row no. | Provisions for the previous year 2022 | | | 2023 | % | % |
| | | Approved | | Preliminary / Achieved 2022 | | | |
| | | according to OGMS Resolution no. 10/19.10.2022 | | | | | |
| 0 | 1 | 2 | 3 | 4 | 5=4/2 | 6=4/3 | |
| a) expenses with increases and penalties | 114 | 68 | 899 | 100 | 0% | 0% | |
| b) expenses regarding assets | 117 | 28,041 | 1,160 | 63,558 | 0% | 0% | |
| c) expenses related to transfers for personnel payments | 118 | - | - | - | 0% | 0% | |
| d) other expenses | 119 | 156,232 | 146,423 | 106,133 | 68% | 72% | |
| e) expenses with the amortization of tangible and intangible assets | 120 | 614,180 | 601,627 | 619,202 | 101% | 103% | |
| f) adjustments and impairments for value losses and provisions | 121 | 35,142 | 33,534 | 31,359 | 89% | 94% | |
| Total | | 833,663 | 783,643 | 820,352 | 98% | 105% | |

A significant share in this category of expenditure is accounted by **costs related to depreciation of tangible and intangible non-current assets (line 120 - lei 619,202 thousand, i.e., a share of 75%)**. This category of costs observes a forecasted increase of +2.9% considering the estimated amount of the depreciation costs, which is also correlated with the investments made in previous years, but due to be commissioned in 2022, as well as the estimates for 2023.

Chapter D also includes a number of other non-monetary costs, particularly related to provisions and adjustments and depreciations for write downs (both new one and restatements), so that their evolution is influenced by the need to set up or restate them in order to comply with the financial reporting standards.

Costs of non-current (line 117) of lei 63,558 thousand represent costs related to the disposed assets resulting from derecognition of the replacements made under the investment programme, due to be completed in 2023. The significant amounts are represented by: improving the reliability of the electric generator by

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replacing the stator winding, replacement of the rotor related to the main generator of Unit 2, replacement the ventilation system of Pavilion 6, replacement of the DCC graphic system, i.e., spare parts qualified as non-current assets.

Other operating costs (line 119) under chapter D, of **lei 106,133 thousand**, mainly represent the consideration of the daily imbalances estimated for 2023 in a prudent manner at the amount of lei 96,000 thousand, taking into account the actual 2022 amount; other costs in this category are: the consideration of the electricity settled for retired employees under regulatory acts, costs of retirement of current assets and fees due for Company's affiliation to specialized organizations, particularly in the nuclear industry.

Adjustments and depreciations for write downs and provisions (line 121), of **lei 31,359 thousand**, are determined by netting of the adjustment costs, write downs and provisions of lei 80,453 thousand, plus the income from resumption of adjustments, depreciations and provisions of lei 49,094 thousand.

The **costs** estimated, of **lei 80,453 thousand**, include:

- provision for the costs of managing low and medium radioactive and non-radioactive waste (lei 4,983 thousand);
- provision for the costs of intermediate storage of burned fuel in DICA modules – DICA 18 modules (lei 9,608 thousand);
- depreciation adjustments for non-current assets, representing the depreciation of DICA modules 13 and 14 according to the transfer of burned fuel - lei 14,018 thousand;
- estimation of the provision for pensions and other liabilities, in accordance with the annual actuary report (lei 3,000 thousand);
- provision for disputes commenced by trade unions for a salary increase (lei 13,864 thousand);
- provision for participation of employees to the 2023 profit (lei 30,000 thousand), estimated according to the legal provisions;
- provisions related to the mandate contract (lei 2,161 thousand). For more details, see Chapter C4 above;
- adjustments for impairment of current assets and losses from receivables (lei 2,819 thousand).

The **income** obtained from the writing off or restatement of adjustments, write downs and provisions, in a total amount of **lei 49,094 thousand**, mainly include:

- writing off the provision for low and medium radioactive and non-radioactive waste (lei 1,400 thousand), gradually as this is managed;
- writing off the provision set up for the costs of intermediate storage of burnt fuel - DICA Modules 13 and 14 (lei 14,019 thousand), gradually as these are filled with bundles of burnt nuclear fuel in 2023;
- writing off the impairment adjustments for non-current and current assets (lei 6,675 thousand);
- writing off the provision for participation of employees to the 2022 profit (lei 27,000 thousand).

The provision for participation of employees to the 2023 profit is calculated at the maximum allowed under the law, *i.e.*, "not more than one average monthly base pay obtained from the economic operator in the reference financial year".

The estimate of the provision for pensions and other liabilities, of lei 3,000 thousand, includes the estimated provision for employee benefits granted at retirement in the form of a quota of 1,200 kWh of electricity/year, in accordance with the provisions of the SNN CBA valid for the period 1 October 2021 - 30 September 2023. The amount of the update shall be based on the actuarial report prepared by the actuary employed by SNN, as well as the provision related to the other benefits granted to employees under the SNN CBA/2021.

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The effective settlement of the retirement benefits for the electricity quota shall be made from the social expenditure fund.

2. In the substantiation of the **financial expenses (line 130)**, of **lei 42,823 thousand** (+42.3% v 2022 preliminary actual, +17.8% vs. 2022 rectified budgeted), the costs interest and commissions due in 2023 were considered, plus the exchange rate differences related to external loans taken for the execution and commissioning of Unit 2 of Cernavodă NPP, and other financial expenses. The costs of the rate differences can only be estimated, but their actual amount shall be influenced by the impact of the realized and unrealized negative exchange rate differences, falling outside the control of the Company.

In 2023, the Company will start the selection of a bank/financial arranger that will finance the Company in the period 2023-2026 with approximately EUR 200 million for Re-engineering Unit 1 and that will finance the Energonuclear subsidiary in the period 2023-2025 with EUR 300-400 million for The project of Units 3 and 4 of Cernavoda NPP.

The financing will be contracted during 2023, and the withdrawal of the amounts is expected to be initiated in the second half of 2023.

Consequently, starting with the second half of 2023, the Company will record expenses with interest and commissions related to this financing, which cannot be estimated when preparing this budget proposal, but which will be returned to with a revision of the budget, if be the case, when the estimation of these costs can be determined.

III. GROSS RESULT

For 2023, based on the forecasted income and expenditure, a **gross profit of lei 1,842,417 thousand** is obtained, lower by -31.2% than the 2022 rectified budgeted figure, the decrease being significantly influenced by the increase in the contribution to the Energy Shortage Fund by +1.4 billion lei. Consequently, eliminating this negative influence, the company would have obtained a gross profit of approximately 3.2 billion lei, higher, both compared to the preliminary/realized gross profit for the year 2022, as well as compared to the rectified level for 2022.

The 2023 Income and Expenditure Budget proposal provides for the distribution of a percentage of 50% from the accounting profit distributable to shareholders, in observance of the provisions of the Government Emergency Ordinance no. 64/2001, which sets out a minimum of 50%.

The level of the gross profit is determined by the aggregate of the operating profit and the budgeted financial result. **The operating profit** is estimated at **lei 1,642,845 thousand** (-34.9% v 2022 rectified budgeted), and the **financial result** is estimated at **lei 199,572 thousand** (+28.1% v 2022 rectified budgeted), higher than the 2022 actual, as a result of the expected level of the interest rates and the conditions expected on the money market in 2023.

The main factors with a significant impact in determining the operating profit, in terms of influencing the operating income, are the estimated sales prices for electricity, and in terms of influencing the operating expenditure, the changes in how the contribution to the Energy Transition Fund is calculated have a material impact; the other expenditure are estimated at a sufficient level necessary to carry out the Company's activities, under conditions of ensuring nuclear safety and maintaining a certain level of electricity quantity

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available to meet electricity sales contracts. The level of expenditure is also influenced by the need to budget a quantity of energy to be purchased during unplanned shutdowns, which results in a high level of commodity expenditure at least at the budgeted, prudent level.

Another important factor is to ensure a level of expenditure that allows for all repair and maintenance activities planned for the budgeted year to be carried out according to internal estimates as a result of the experience and expertise of staff qualified to carry out such repair and maintenance plans, as well as according to regulations in force and compliance requirements. At the same time, the budgeting exercise takes into account the needs that are adjacent to the core activity, which are carried out in order to sustain it and without which the proper functioning of the activity is hindered.

IV. CORPORATE INCOME TAX

The costs of corporate tax (lei 286,414 thousand) were determined according to the provisions of the Fiscal Code. The estimate of non-deductible expenditure for fiscal purposes and non-taxable income for the calculation of the corporate tax for 2023 was made taking into account the preliminary results of 2022.

The non-deductible expenditures (lei 83,129 thousand) comprise, mainly, the value of the scrap of certain spare parts, the value of the provision for the interim storage of burnt fuel, the value of the provision for radioactive and non-radioactive waste, the value of the provision for employee benefits, the value of sponsorships, as well as the value of the provision for employee participation in profit.

Non-taxable income (lei 56,772 thousand) consist mainly of income from restatement of provisions.

V. INVESTMENT FINANCING SOURCES for 2023, of lei 1,808,419 thousand, are represented by own sources, with a value of lei 1,807,389 thousands, and other sources consisting of European funds for the ISAC project, included in the investment program, detailed in Appendix 4.

In 2023, the Company will start the selection of a bank/financial arranger that will finance the Company in the period 2023-2026 with approximately EUR 200 million for Re-engineering Unit 1 and that will finance the Energonuclear subsidiary in the period 2023-2025 with EUR 300-400 million for The project of Units 3 and 4 of Cernavoda NPP.

The financing will be contracted during 2023, and the withdrawal of the amounts is expected to be initiated in the second half of 2023.

Consequently, starting with the second half of 2023, the Company will record expenses with interest and commissions related to this financing, which cannot be estimated when preparing this budget proposal, but which will be returned to with a revision of the budget, if be the case, when the estimation of these costs can be determined.

VI. INVESTMENT COSTS for 2023, of lei **1,345,406 thousand**, to which adds amount of lei 66,000 thousand, representing repayment of instalments of loans contracted for construction and commissioning of Unit 2, maturing in 2023, and resulting into an **investment programme in a total amount of lei 1,411,406 thousand**, were sized according to the investment projects due to be put in place and featured in the strategic programmes of the Company, being structured as follows:

- the amount of lei 55,567 thousand, representing the investment programme of SNN Headquarters;

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- the amount of lei 1,278,764 thousand, representing the consideration of the investment programme of Cernavodă NPP;
- the amount of lei 11,075 thousand, representing the consideration of the investment programme at NFP Pitești branch.

Of the lei 1,345,406 thousand, representing investments provided in the 2023 IEB, some of the key investments are:

| Name of investment | Amount (thousand lei) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| Extension of the service lifetime of Unit 1 by retubing the reactor and retrofitting the main systems (studies) | 721,048 |
| Detrition facility | 145,871 |
| Replacing the rotor related to the main generator of 2-4121-G02 from U2 with a new rotor | 97,587 |
| Participation to the share capital of EnergoNuclear | 23,000 |
| Improving the response of Cernavodă NPP, namely the nuclear safety functions in case of events outside the design basis due to the nuclear accident occurred at the Fukushima 1 nuclear power plant, Japan (U5 fitting out) | 72,558 |
| Intermediate Dry Storage Spent Fuel Facility (DICA) | 25,494 |

Depending on how the investments are implemented, it shall be possible to reallocate amounts between the different investment projects, as long as the total approved investment costs and the existing financing sources are observed. Also, during the year, new investment costs could unexpectedly emerge that could be financed up to the existing financing sources.

The cars proposed to be purchased in 2023, according to Appendix 4.1 "Equipment", comply with the provisions of the Resolution no. 84/28.01.2020 *approving of the number of cars needed to carry out the specific activities of SN Nuclearelectrica S.A.* The car fleet existing on 31 December 2022, as well as the proposed increase (6 cars) according to the 2023 IEB comply with the provisions of the Government Decision no. 84/28.01.2020.

The investment programme is detailed in Appendix 4 of the 2023 Income and Expenditure Budget, with additional information provided about facilities in Appendix 4.1.

VII. Other substantiating data concerning the 2023 Income and Expenditure Budget

For 2023, this proposal of Income and Expenditure Budget does **not** provide for any overdue payments, and the amount of the outstanding debts was decreased compared to the actual figure of 2022.

By its Decision no. 187/29.10.2018, the Board of Directors approved the administration component of the Management Plan. By its Decision no. 33/07.03.2019, the Board of Directors approved the management component of the Management Plan, as well as the Management Plan in its entirety. The 2023 income and expenditure budget is correlated with the Management Plan, which covers for the management component.

The estimates of the indicators for 2024 and 2025 are made linearly (save for Appendix 4 - Investment Programme and costs of mandate contracts for the management of the company Chapter C4 Appendix 1, detailed at the end of Chapter C above), building on the 2023 budgeted indicators, as indexed with the inflation rate published by the National Institute of Statistics in "2022 - 2026 Forecast - 2022 fall version"; the detailed indicators for the said years are to be detailed and substantiated under the 2024 and 2025 annual budgets.

The substantiations of the 2023 Income and Expenditure Budget were cleared by the Management Financial Control. Also, the present draft of the Income and Expenditure Budget for 2023 is submitted for approval after the prior consultation of the trade union organizations.

**Chief Executive Officer,
Cosmin Ghita**

**Chief Financial Officer,
Dan Niculaie-Faranga**

Appendixes:

- Income and Expenditure Budget for year 2023 and estimates for years 2024 and 2025 (Appendix no. 1);
- Details of the economic and financial indicators provided for in the Income and Expenditure Budget and their distribution by quarters (Appendix no. 2);
- Degree of achievement of total income (Appendix no. 3);
- Investment Programme (Appendix no. 4);
- List of item „Facilities” for year 2023 (Appendix no. 4.1);
- Measures for improving the gross result and reducing outstanding payments (Appendix no. 5).