



**Current report according to the provisions of ASF Regulation no. 5/2018 on issuers of financial instruments and market operations and Law 24/2027**

**Report date: 29 May 2023**

*Name of issuing entity: Societatea Nationala NUCLEARELECTRICA S.A.*

*Headquarters: Bulevardul Iancu de Hunedoara, nr. 48, Sector 1, Bucharest*

*Phone/fax number: 021.203.82.00 / 021.316.94.00*

*Single Code of Registration with the Office of the Trade Register: 10874881*

*Entry number in the Trade Register: J40/7403/1998*

*Subscribed and paid-up share capital: RON 3,016,438,940*

*Regulated market the issued securities are traded on: Bucharest Stock Exchange*

**To: Bucharest Stock Exchange  
Financial Supervisory Authority**

**Important event to report:**

**Current report on ensuring that all categories of users of the financial statements of Societatea Nationala Nuclearelectrica SA are informed about the qualified opinion expressed by the financial auditor in the audit reports issued for the individual and consolidated annual financial statements for the financial year ending 31 Dec 2022, as well as about the paragraph highlighting certain matters in the same audit reports**

The financial auditor of SN Nuclearelectrica SA ("SNN") expressed a qualified opinion and included a paragraph highlighting certain issues in the financial audit reports for the annual individual and consolidated financial statements for the year ended 31 Dec 2022.

The basis for the qualified opinion expressed by the financial auditor in the audit reports for the financial year 2022 is reflected in all audit opinions on IFRS financial statements since 2013 (prior to 2013, SNN prepared financial statements in accordance with IFRS as follows: individual financial statements since 1998 and consolidated financial statements since 2011).

The company considers that the qualified opinion expressed by SNN's financial auditor is not a factor that could affect the true and fair view of the financial position as at 31 Dec 2022, the financial performance and the cash flows for the year then ended, in accordance with the provisions of the accounting regulations and policies, so that the financial statements comply with the principle of fair presentation of the economic and financial events for the year ended 31 Dec 2022. However, at the

**Societatea Nationala NUCLEARELECTRICA S.A.**

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request of the Financial Supervisory Authority – ASF, submitted to SNN on 8 May 2023, in order to ensure that all categories of users of financial and accounting information are informed, we consider it appropriate to set out the information below on the content of the audit reports issued for the individual and consolidated annual financial statements for the financial year ending 31 Dec 2022.

#### A. Qualified Opinion

The audit reports issued by the financial auditor for the individual and consolidated annual financial statements for the financial year ended 31 Dec 2022 contain a qualified opinion, on the following grounds:

"As disclosed in Note 5 to the individual financial statements attached, as at 31 Dec 2022

The company has registered tangible assets in progress with a book value of 273,960,000 lei (273,960,000 lei as at 31 Dec 2021), consisting of capitalisation of items for Units 3 and 4 of the Cernavoda nuclear power plant. Prior to the year 1991, the nuclear units 1, 2, 3, 4 and 5 were considered as a single project and, for this reason, the construction costs incurred were not allocated at the level of each unit. Subsequently, the Company performed the allocation of the construction costs for Units 3 and 4 of the nuclear power plant. We were unable to obtain sufficient and appropriate audit evidence of the accuracy of this allocation, which has an effect on the valuation of these assets. These limitations also have an impact on the deferred tax liability allocated to Units 3 and 4 as at 31 Dec 2022 in the amount of 43,524,186 lei (43,524,186 lei as at 31 Dec 2021). Accordingly, we were unable to determine whether adjustments to property, plant and equipment, deferred tax liability and retained earnings as at 31 Dec 2022 and, accordingly, to depreciation and amortisation, income tax expense and net profit for the year then ended are necessary."

1. SNN has prepared financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS – EU") since 2013;
2. The basis for the qualified opinion expressed by the financial auditor in the audit reports for the financial year 2022 is reflected in all audit opinions on IFRS financial statements prior to 2022 (prior to 2013, SNN prepared financial statements in accordance with IFRS as follows: individual financial statements since 1998 and consolidated financial statements since 2011).
3. In the audit reports, there is only one basis for the qualified opinion, and this is due to the following historical premises:
  - a. SNN has recorded as "Assets in progress" the book value related to Units 3 and 4 Cernavoda NPP at a cost of about 274 million RON, consisting of capitalised expenditure items related to Units 3 and 4 Cernavoda NPP.
  - b. Prior to 1991, Units 1, 2, 3, 4 and 5 were considered as a single investment project and therefore the construction costs recorded up to that date were not allocated to each nuclear unit, but cumulatively as a single Project (Units 1 – 5).
  - c. Subsequently, SNN carried out an allocation of construction costs for Units 3 and 4, based on appropriate professional reasoning, based on available information, to determine their cost, taking into account the way the Project's capital expenditure was accounted for prior to 1991.
  - d. The auditor was unable to obtain sufficient and appropriate audit evidence of the accuracy of the cost allocation for units 3 and 4, which has an effect on the valuation of these assets.
4. SNN's accounting policies provide for assets in progress to be reflected on the cost model in accordance with IAS 16 paragraph 30.

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In these circumstances, the auditor maintains that it was unable to obtain sufficient and appropriate audit evidence as to the accuracy of this allocation, which has an effect on the valuation of these assets, and was unable to identify whether adjustments to property, plant and equipment, and other items on which their revaluation would have an impact, i.e. the deferred tax liability and the retained earnings as at 31 Dec 2022, as a result of the carrying amount relating to Units 3 and 4 reflected in the financial position, thus expressing a reservation on this matter reflected in the individual and consolidated financial statements.

One solution to eliminate this reservation, also identified in discussions with the financial auditors, is to modify SNN's accounting policies with regard to reflecting assets earmarked for Units 3 and 4 (assets under construction) in a separate asset group and to apply the revaluation model of separately reflecting assets earmarked for Units 3 and 4 in the financial statements in accordance with IAS 16 paragraph 31. In such a situation, an independent revaluation performed with sufficient regularity would provide a reasonable basis for reflecting these assets in the financial statements against an allocated cost and would remove the inherent limitations in the audit process, leading to removing this basis for the qualified opinion.

It was not considered appropriate to change the accounting policies for assets for Units 3 and 4 to create a separate group of assets to be revalued for at least the following reasons:

a) These assets are not operational, being assets in progress; the normal policies for reflecting assets in progress are at cost, because until the time of completion (as they are in progress), these assets do not produce economic benefits, but are only expected to produce after commissioning;

b) An independent valuation of these assets by an independent valuer would aim to establish fair value as defined by IFRS 13 (Fair Value Measurement) which contains the following definition: "Fair value is the price that would be received to sell an asset or paid to transfer a liability in a regulated transaction between market participants at the valuation date."

The valuation standard issued by ANEVAR – "SEV 300 Valuations for Financial Reporting", used by valuers, states in paragraph G2: "The commentary in IFRS 13, and in particular the references to market participants, to a normal transaction, a transaction that takes place in the principal or most advantageous market and to the best use of an asset, makes it clear that fair value under IFRSs is generally consistent with the concept of market value as defined and discussed in the SEV 100 Framework." In addition, the International Valuation Standard Board ("IVSB") generally considers the definition of fair value in IFRS to be consistent with the definition of market value in valuation standards.

In our case, for Units 3 and 4 it is not possible to identify the existence of a trading market for such assets in progress and under these conditions the application of the "revaluation" treatment of IAS 16 paragraph 31 becomes inoperable.

SNN applies the cost method in accordance with IAS 16 paragraph 30, as the method of valuation of tangible assets in progress, which is also reflected in the accounting policies adopted by SNN.

c) Units 3 and 4 are the main element of SNN's Production Capacity Increase Project.

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The latest actions carried out by SNN in order to continue the Project on Increasing Production Capacity are the following:

- By the Decision of the Prime Minister of Romania no. 5/03.01.2022 the Coordinating Committee was established for the expansion of the civil nuclear program in Romania, whose main duties are represented by the analysis, crystallization and substantiation of strategic decisions, of the necessary measures for the expansion of the civil nuclear program in Romania and the establishment the mandate of the representatives of the Romanian Party in the meetings of the Strategic Committee ("Steering Committee") for the coordination, facilitation and evaluation of the cooperation activities provided for in the Cooperation Agreement regarding the Cernavodă Nuclear Power Projects and the Civil Nuclear Power Sector in Romania concluded between the Government of Romania and the US Government.
- By Resolution of the Ordinary General Meeting of Shareholders of SNN no. 6/10.08.2022 was approved the continuation of the Project of Units 3 and 4 within Cernavodă NPP, respectively, the adoption of the Preliminary Investment Decision and entering Phase 2 – Preliminary Works, depending on the approval and conclusion of the Support Agreement between the Romanian State and SNN in relation to the Project of Units 3 and 4 within Cernavodă NPP. Moreover, they also approved the initiation of the steps for awarding and concluding the agreements necessary for the completion of the Project, within the limits of powers provided for in the articles of incorporation of SNN and Energonuclear S.R.L., and without exceeding the amount of EUR 185 million.
- During the UN Climate Change Conference (COP27), which took place in November 2022, US Exim Bank announced the issue of two expressions of interest for the financing the pre-project technical services provided by USA in relation to 3 and 4 Units from Cernavoda, developed by the subsidiary of National Company Nuclearelectrica S.A. Based on the preliminary information presented, EXIM can consider extending a financing of up to USD 50 million under US export contract for pre-project technical services, as part of the Engineering Multiplying Program (EMP), and of up to USD 3 billion under the US export contract for engineering and project management services for the contract for completion of Units 3 and 4 of the Cernavoda nuclear power plant.
- In December 2022, the Government of Romania, at the proposal of the Ministry of Energy, approved the draft law concerning the signing of the support agreement between the Romanian State and National Company Nuclearelectrica S.A. for the project concerning Units 3 and 4 of Cernavodă, which was adopted on 31 March 2023 and thus became Law No 74/2023.

In view of the above, it appears that the Project for the expansion of production capacity (Units 3 and 4 of the Cernavoda NPP) represents one of the optimal solutions to cover the electricity production capacity deficit due to the need to replace fossil fuel-based energy capacities with capacities based on low-carbon technologies, benefiting from the confirmed support of the Romanian State.

As we have shown above, the inherent limitations on the allocation of historical costs for Units 3 and 4 have their origins prior to 1991, and these inherent limitations formed a basis for the qualified opinion for all audit opinions expressed by various SNN financial auditors for the IFRS financial statements since 1998.

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#### B. Paragraph highlighting certain aspects

In the audit reports issued by the financial auditor on the individual and consolidated financial statements for the financial year ending 31 Dec 2022 the following paragraph is included to highlight certain matters:

”Without issuing additional reservations on our opinion, we draw attention to Note 1 of the individual financial statements, which describes aspects regarding the continuity of the subsidiary Energonuclear S.A. and the Units 3 and 4 Project. The total estimated recoverable value of the investment in Units 3 and 4 in Cernavoda, including also all individual items capitalised by the Company, has been determined by management based on certain premises, professional judgments, probabilities regarding subsequent events, which are considered reasonable in the given circumstances, as well as on other factors, assuming that the current negotiations between the Company’s management and its discussion partners regarding the investment in these units will be concluded successfully. These aspects are supported by the fact that in March 2023, the Law on approving the signature of the Support Agreement was adopted between the Romanian State and Societatea Nationala Nuclearelectrica SA for the Cernavoda NPP Units 3 and 4 Project. In the event that any of the premises, professional judgments, probabilities regarding subsequent events and other factors do not materialize, this could cause a material adjustment on the net value of the Company's assets, liabilities and individual results for the current or future financial year, an impact that cannot be estimated reasonably at the date of issue of these individual financial statements.

The audit reports contain such a paragraph highlighting certain aspects of the continuity of Energonuclear SA's activity and of the Units 3 and 4 Project starting with the audit report issued for the financial statements prepared for the financial year ended 31 December 2012.

In addition to what is mentioned in point A above, with regard to the paragraph highlighting certain matters in the audit opinion expressed by the financial auditor in the audit report issued in respect of the individual and consolidated annual financial statements for the financial year ended 31 Dec 2022, we emphasize the following:

- i. SNN's individual and consolidated financial statements have been prepared on a going concern basis, which means that SNN and its subsidiaries will continue to operate, without a significant reduction, for the foreseeable future.
- ii. The going concern principle implies that SNN and the company's subsidiaries will normally continue their operations for at least 12 months from the reporting date.
- iii. In the continuity of the activity of the subsidiary Energonuclear S.A. and of the Units 3 and 4 Project, it is essential to go through the phases of the project as they are described in the support agreement between the Romanian State and Societatea Nationala Nuclearelectrica S.A. for the Cernavoda Units 3 and 4 Project, which was adopted by Law no. 74/2023.
- iv. The project of Units 3 and 4 is in Phase I – preparatory phase, with an estimated duration of 24 months (2021-2023) and has as main objectives the reoperationalization of the project company Energonuclear and the update of the specific documentation to start the project.
- v. After completion of the preparatory phase, the Project enters Stage II, consisting in preliminary works, with an estimated time for completion of 30 months (2023-2025), and mainly aims to have the critical engineering devised for project definition, have the financing structured and contracted, and agree on an appropriate contractual architecture for implementation of the

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Project, obtain the favourable Opinion of the European Commission further to the Project Notice according to Article 41 of the EURATOM Treaty and a positive decision in accordance with the relevant European provisions on State Aid, obtain the Nuclear Safety Authorization for the Construction Stage and have the Final Investment Decision taken. At the end of this phase, the project feasibility shall be reexamined based on the new technical and economic indicators and the Final Investment Decision shall be made, which shall allow the Project to pass to Stage III;

- vi. Stage III is the construction phase and is estimated to take place during the period: 2026-2030/2031 (completion U3 – 2030/completion U4 – 2031).
- vii. As mentioned above, the Units 3 and 4 Project is a long-term project, in which an essential role in its continuation is played by the completion of Phase II, as well as the fulfilment of all the conditions mentioned in the Support Agreement and their compliance with the deadlines.

Currently SNN and Energonuclear SA are intensively involved in the implementation of investment projects, implicitly the Units 3 and 4 project, and the prospect of continuity of activity in the next 12 months, which is the subject of the paragraph highlighting some aspects in the audit report, we do not consider that it presents a concern, a fact supported by the special efforts that SNN and Energonuclear are making in the implementation of this project and reinforced by the entry into force of Law no.74./2023 on the approval of the signing of the Support Agreement between the Romanian State and SNN on the Cernavoda NPP Units 3 and 4 Project, which highlights the strategic importance of this project. So the company is confident in the development of this large and long-term project, strategic from the company's perspective, but also from the national perspective. The highlighting of certain issues relating to the continuity of Energonuclear's activity and implicitly of the Units 3 and 4 Project in the audit report we attribute to a prudent professional judgement demonstrated by the financial auditor, which we respect, which we have discussed with the financial auditor and which we have agreed to return to on each audit engagement, reinforcing the Company's firm and confident position on this Project.

**We believe that these limitations will cease to exist by themselves after the completion of the first phases of the project for Units 3 and 4 and that the appropriate time to remove the qualified opinion issued by the independent financial auditor, as well as the paragraph highlighting certain issues, is at the time of obtaining the investment decision, because at the time of the investment decision sufficient information will be available to carry out a reassessment in accordance with the applicable rules.**

In view of the above, the Company considers that the qualified opinion and the paragraph highlighting certain matters do not represent a disturbing factor in the understanding of the financial position as at 31 Dec 2022, the financial performance and the cash flows for the year ended on the same date, the financial statements prepared as at 31 Dec 2022 faithfully reflect the economic and financial activity of the Company.

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

**Chief Financial Officer**  
**Dan Niculaie Faranga**

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