



Endorsed,

**Alexandru Sandulescu
President of the Board of Directors**

NOTE

regarding the S.N. Nuclearelectrica S.A. equity investment into Hidro Tarnita S.A. project company by subscribing a number of 89,000 newly issued shares having the nominal value of RON 100, to be issued by Hidro Tarnita S.A. company

1. Introduction

According to the *Preliminary Agreement regarding the completion of Tarnita-Lapustesti Pump Storage Hydropower Plant (PSHPP) Project*, submitted by the Department of Energy with the letter no. 4833/10.05.2013 and to the *Memorandum on "Investment Project Tarnita-Lapustesti Pump Storage Hydropower Plant (PSHPP)"* approved in the Romanian Government meeting as of 16.10.2013, on November 1, 2013 was set-up the project company Hidro Tarnita SA, having as shareholders Complexul Energetic Hunedoara SA and SC DFEE Electrica SA. The Shareholders Agreement provides the following:

- Upon setting-up of the Company, Electrica shall subscribe a number of 575 shares having a total RON 57,500, representing 50% of the share capital, and CE Hunedoara shall subscribe a number of 575 shares having a total RON 57,500, representing 50% of the share capital;
- After the Company registration, the Shareholders shall unanimously decide on the share capital increase of the Company (First Further Subscription of Shares) through capital contribution, subscribed and fully paid in cash by the following companies: CE Hunedoara, DFEE Electrica, Hidroelectrica, SN Nuclearelectrica SA, SNGN Romgaz SA, CE Oltenia SA., so that after the first subscription, the share capital of the Company to represent the equivalent of EUR 12 million, respectively EUR 2 million for each of the six shareholders;
- On a date to be unanimously agreed by all the shareholders (Second Further Share Subscription Date), Hidroelectrica shall contribute in kind with the elements of pre-project works, each of the other shareholders having the right to exercise its preemption right.

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By letter sent by the *Department of Energy no. 100.044/09.01.2014 and registered at SNN with no. 250/10.01.2014*, the companies mentioned in the Shareholders Agreement of Hidro Tarnita SA company, are notified that on December 12, 2013 started the second phase of the project company, respectively the share capital increase, by co-opting new shareholders out of the companies operating in the field of energy. SNN was invited, together with SNGN Romgaz SA, SC Hidroelectrica SA, Complexul Energetic Oltenia SA, SC Electrica SA and Complexul Energetic Hunedoara SA, to participate in this phase of share capital increase of Hidro Tarnita SA company. Thus, according to the *Extraordinary Shareholders Resolution no. 1/12.12.2013 of Hidro Tarnita S.A. company*, the following were resolved:

- The share capital increase of the Hidro Tarnita SA company through the issuing of new shares in the amount of 756,850, having a nominal value of RON 100, has been endorsed.
- The capital contribution of each company has been settled in the Appendix to the Extraordinary Shareholders Assembly, SNN's quota was established in amount of 89,000 new shares having a value of RON 8,900,000, representing 11.7414% of the share capital of the company Hidro Tarnita S.A.
- The share capital of Hidro Tarnita S.A. will be increased by cash and in-kind contributions; The value of the in-kind contributions cannot exceed 30% of the value of the share capital increase. Therewith, which type of assets will be accepted as in-kind contribution are mentioned.
- The dead-line until the shares issued in exchange of cash or in-kind contribution can be subscribed is 30 of April 2014 ("Subscription Period"). The subscribed shares shall be paid at least 30% until the end of the Subscription Period and shall be paid in full until 31 of December 2014.

2. Current situation

By the letter of the Department of Energy no. 150119 of 16.01.2014 registered at SNN with no. 610 from 17.01.2014 (Annex 1), issued in consideration of the provisions of Article 119 of The Companies Law 31/1990 republished, as subsequently amended and supplemented, the Ministry of Economy – Department of Energy, shareholder of SNN, on behalf of Romanian State, has requested the convening of an Extraordinary General Shareholders Assembly having the following items on the agenda:

- *The approval of the participation of SNN to the share capital increase of Hidro Tarnita S.A. by subscribing a number of 89,000 new shares with a nominal value of RON 100, to be issued by Hidro Tarnita S.A.;*
- *The approval of the introduction in the SNN Income and Expenditure for the year 2014 of the amounts necessary for the payments corresponding to the subscribed shares.*

In accordance with the SNN Articles of Association, the General Shareholders Assembly will be convened as many times as needed, by the Board of Directors, upon the request of the shareholders holding, individually or jointly, at least 5% of the share capital, should the request contain instructions falling in the competence of the assembly.

Main features:

- **Object:** the participation of SNN at the capital share increase of S.C. Hidro Tarnita S.A. by subscribing a number of 89,000 new shares, representing 11.7414% of the capital share of S.C. Hidro Tarnita S.A.
- **Financing source:** SNN own funds.
- **Terms and conditions:** the value of the initial contribution: RON 8,900,000, to be paid at least 30% until 30 of April 2014 and to be paid in full until 31 of December 2014.
- **Necessity and opportunity:** The Project Tarnita – Lapustesti is a priority of the short and medium term strategy for the development of the Romanian Energy sector for 2007-2020, approved by the Government Decision no. 1069/2007. The project is also included in the Government Programme as a priority, representing a project of national interest considering the essential role that it will have in the participation to the necessary frequency-power ratio upon the completion of Units 3 and 4 Cernavoda NPP. The power plant is designed to be equipped with four reversible hydro units 4 x 250 MW, the envisaged construction time is 7 years within 2 stages (5 years – first stage; 2 years second stage), the investment is estimated to be around 1.164 billion EURO (excluding VAT). Being a plant with accumulation through pumping, it will ensure a safety increase in the operation of the electric energy system. This project represents an opportunity for SNN subject to generating sound rate of return and it could create synergies at operational level. Currently, in the world, 600 power plants with accumulation through pumping are operated, while 60 more are being either built or designed.

We point out that, following SNN request to obtain some updated and detailed technical and economical information, including the updated feasibility study, on 28.01.2014 a meeting took place with the representatives of the project-company Hidro Tarnita S.A., Deloitte and the representatives of the companies invited to contribute to the share capital of Hidro Tarnita S.A.

Regarding the documents requested and the conclusions of the meeting, one may note the following:

- The feasibility study and the financial model were prepared by Deloitte in the period 2010-2011 and were approved by Hidroelectrica (the client of the financial model at that time) in 2011. The model is based on ISPH study from 2008 (capital expenditures, electricity generated and consumed), and the Day-Ahead and Balancing Markets prices used as input data are at 2011 level. It is foreseen that after the share capital increase of SC Hidro Tarnita S.A. phase, Hidroelectrica shall contribute in-kind to the share capital of the new company all the deliverables contracted in the pre-project phase, and that the contract with Deloitte shall be transferred to the Project Company.
- In February 2014, it is intended to launch the selection procedure of private investors in the Project and by the end of 2014 the shareholding structure will be established. The ISPH feasibility study will be updated and should be available for consulting by the future shareholders in the first quarter of 2014.

3. Proposals submitted for approval to the Extraordinary General Shareholders Assembly

Considering the above, as per the provisions of art. 13 paragraph 5 letter m) of the Articles of Association and the provisions of art. 113 letter m) of the Companies Law no. 31/1990, we submit for approval to the Extraordinary General Shareholders Assembly the following:

- *The approval of the participation of SNN to the share capital increase of Hidro Tarnita S.A. by subscribing a number of 89,000 new shares with a nominal value of RON 100, to be issued by Hidro Tarnita S.A.;*
- *The approval of the introduction in the SNN Income and Expenditure for the year 2014 of the amounts necessary for the payments corresponding to the subscribed shares.*

Daniela Lulache

Director General