

SN Nuclearelectrica SA

Consolidated Financial Statements
as at and for the year ended
31 December 2011

Prepared in accordance with
International Financial Reporting Standards

SN Nuclearelectrica SA
Consolidated Statement of Financial Position as at 31 December 2011
(All amounts are in million RON, unless stated otherwise)

| | Note | 31 December 2011 | 31 December 2010 |
|--|------|---------------------|---------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment (PP&E) | 4 | 9,481 | 7,720 |
| PP&E held for future investment in associate | 4 | - | 1,540 |
| Intangible assets | 5 | 53 | 65 |
| Investment in associate | 6 | - | 45 |
| Total non-current assets | | 9,534 | 9,370 |
| Current assets | | | |
| Inventories | 8 | 456 | 477 |
| Current tax assets | | 8 | 34 |
| Trade and other receivables | 9 | 227 | 351 |
| Prepayments | | 8 | 9 |
| Restricted cash | 10 | 96 | - |
| Cash and cash equivalents | 10 | 611 | 474 |
| Total current assets | | 1,406 | 1,345 |
| Total assets | | 10,940 | 10,715 |
| Equity and liabilities | | | |
| Shareholders' equity | | | |
| Share capital | | 2,732 | 2,732 |
| Prepaid share reserve | | 1,617 | 1,364 |
| Revaluation reserve | | 1,469 | 1,474 |
| Retained earnings | | 2,230 | 2,142 |
| Total shareholders' equity | 11 | 8,048 | 7,712 |
| Non-controlling interest | | 16 | - |
| Total equity | | 8,064 | 7,712 |
| Non-current liabilities | | | |
| Long term borrowings | 12 | 2,067 | 2,194 |
| Deferred income | | 209 | 217 |
| Deferred tax liability | 14 | 162 | 167 |
| Employee benefits | 15 | 21 | 26 |
| Total non-current liabilities | | 2,459 | 2,604 |
| Current liabilities | | | |
| Accounts payable and other liabilities | 13 | 188 | 182 |
| Deferred income | | 52 | 42 |
| Current portion of long term borrowings | 12 | 177 | 175 |
| Total current liabilities | | 417 | 399 |
| Total liabilities | | 2,876 | 3,003 |
| Total equity and liabilities | | 10,940 | 10,715 |

The consolidated financial statements on pages 1 to 36 were authorized for issue by the management on 17 August 2012 and were signed on its behalf by:

Dina Dumitru
General Manager

Elena Negulici
Economic Director

The accompanying notes 1-22 are an integral part of these consolidated financial statements.



SN Nuclearelectrica SA
Consolidated Income Statement for the year ended 31 December 2011
(All amounts are in million RON, unless stated otherwise)

| | Note | 2011 | 2010 |
|--|------|----------------|----------------|
| Revenues | | | |
| Sales of electricity generated by the Company | | 1,498 | 1,433 |
| Revenues from traded electricity | | 90 | 82 |
| Total revenues | | 1,588 | 1,515 |
| Other income | | 27 | 39 |
| Operating expenses | | | |
| Depreciation and amortisation | | (387) | (381) |
| Personnel expenses | | (281) | (261) |
| Cost of traded electricity | | (46) | (63) |
| Repairs and maintenance | | (105) | (91) |
| Electricity transmission expenses | | (90) | (81) |
| Spare parts used | | (28) | (29) |
| Cost of uranium fuel | | (119) | (118) |
| Other operating expenses | 16 | (398) | (346) |
| Total operating expenses | | (1,454) | (1,370) |
| Operating profit | | 161 | 184 |
| Finance costs | | (341) | (434) |
| Finance income | | 283 | 262 |
| Net finance costs | 17 | (58) | (172) |
| Share of loss of equity-accounted investees | | - | (4) |
| Profit before income tax | | 103 | 8 |
| Income tax expense | 14 | (20) | (4) |
| Profit for the period | | 83 | 4 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | 82.85 | - |
| Non-controlling interests | | 0.15 | - |
| Profit for the period | | 83 | 4 |



The accompanying notes 1-22 are an integral part of these consolidated financial statements.

SN Nuclearelectrica SA

Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

(All amounts are in million RON, unless stated otherwise)

| | Note | 2011 | 2010 |
|--|------|-------|------|
| Profit for the period | | 83 | 4 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the period | | 83 | 4 |
| Attributable to: | | 82.85 | - |
| Owners of the Company | | 0.15 | - |
| Non-controlling interests | | | |
| Total comprehensive income for the period | | 83 | 4 |

Dina Dumitru
General Manager

Elena Negulici
Economic Director

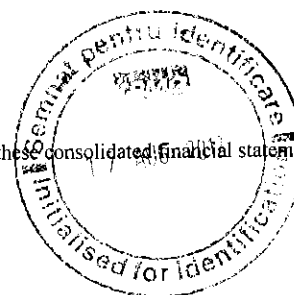
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SN Nuclearelectrica SA
Consolidated Statement of Changes in Equity for the year ended 31 December 2011
(All amounts are in million RON, unless stated otherwise)

| | Note | Share Capital | Prepaid share reserve | Revaluation reserve | Retained earnings | Total | Non-controlling interests | Total equity |
|---|------|---------------|-----------------------|---------------------|-------------------|--------------|---------------------------|--------------|
| Balance as at 1 January 2010 | | 2,732 | 1,075 | 1,484 | 2,128 | 7,419 | - | 7,419 |
| Comprehensive income for the period | | | | | | | | |
| Profit for the period | | - | - | - | 4 | 4 | - | 4 |
| Total comprehensive loss for the period | | - | - | - | 4 | 4 | - | 4 |
| Transactions with owners of the Company, recognized directly in equity | | | | | | | | |
| State budget's contributions | 11 | - | 289 | - | - | 289 | - | 289 |
| Total transactions with owners of the Company | | - | 289 | - | - | 289 | - | 289 |
| Depreciation transfer | | - | - | (10) | 10 | - | - | - |
| Balance as at 31 December 2010 | | 2,732 | 1,364 | 1,474 | 2,142 | 7,712 | - | 7,712 |
| Balance as at 1 January 2011 | | 2,732 | 1,364 | 1,474 | 2,142 | 7,712 | - | 7,712 |
| Comprehensive income for the period | | | | | | | | |
| Profit for the period | | - | - | - | 82.85 | 82.85 | 0.15 | 83 |
| Total comprehensive income for the period | | - | - | - | 82.85 | 82.85 | 0.15 | 83 |
| Acquisition of subsidiary with non-controlling interests | | - | - | - | - | - | 16 | 16 |
| Transactions with owners of the Company, recognized directly in equity | | | | | | | | |
| State budget's contributions | 11 | - | 253 | - | - | 253 | - | 253 |
| Total transactions with owners of the Company | | - | 253 | - | - | 253 | - | 253 |
| Depreciation transfer | | - | - | (5) | 5 | - | - | - |
| Balance as at 31 December 2011 | | 2,732 | 1,617 | 1,469 | 2,230 | 8,048 | 16 | 8,064 |

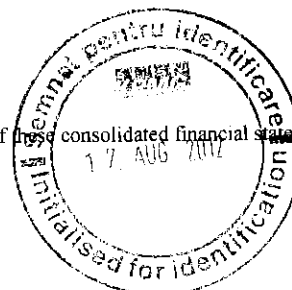
The accompanying notes 1-22 are an integral part of these consolidated financial statements.



SN Nuclearelectrica SA
Consolidated Statement of Cash Flows for the year ended 31 December 2011
(All amounts are in million RON, unless stated otherwise)

| | Note | 2011 | 2010 |
|---|------|--------------|--------------|
| Cash flows from operating activities | | | |
| Profit before income tax | | 103 | 8 |
| Adjustments for | | | |
| Depreciation and amortization | | 387 | 381 |
| Provision for pension | | (3) | 4 |
| Net finance costs | 17 | 58 | - |
| Gain on sale of property, plant and equipment | | - | (1) |
| Interest expense | | - | 45 |
| Interest income | | - | (27) |
| Unrealized foreign exchange effect | | - | 128 |
| | | <u>545</u> | <u>538</u> |
| Changes in: | | | |
| Decrease/(increase) in trade and other receivables | | 124 | (177) |
| Decrease in inventories | | 17 | 13 |
| Increase in accounts payable and other liabilities | | 43 | 74 |
| Cash generated from operating activities | | <u>729</u> | <u>448</u> |
| Income tax paid | | - | (13) |
| Interest received | | 31 | 28 |
| Interest paid | | (47) | (45) |
| Net cash from operating activities | | <u>713</u> | <u>418</u> |
| Cash flows used in investing activities | | | |
| Purchase of intangible assets | | (2) | (22) |
| Purchase of property, plant, equipment | | (550) | (175) |
| Investment in EnergoNuclear by the Company | | - | (39) |
| Acquisition of subsidiary, net of cash acquired | | (16) | - |
| Proceeds from the sale of property | | 6 | 22 |
| Increase in restricted cash | | (96) | - |
| Purchases of assets held for contribution to an associate | | - | (340) |
| Net cash used in investing activities | | <u>(658)</u> | <u>(554)</u> |
| Cash flows from financing activities | | | |
| Increase of prepaid share reserve | | 253 | 289 |
| Repayments of borrowings | | (171) | (174) |
| Net cash from financing activities | | <u>82</u> | <u>115</u> |
| Net increase/(decrease) in cash and cash equivalents | | <u>137</u> | <u>(21)</u> |
| Cash and cash equivalents as at 1 January (see Note 10) | | <u>474</u> | <u>495</u> |
| Cash and cash equivalents at the end of the period (see Note 10) | | <u>611</u> | <u>474</u> |

The accompanying notes 1-22 are an integral part of these consolidated financial statements.



1. REPORTING ENTITY

Societatea Națională Nuclearelectrica SA (“the Company”) is a company domiciled in Romania. The Company’s head office is located in Bucharest, 65 Polonă Street. The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and EnergoNuclear SA, (named together with the Company, “the Group”). As at 31 December 2011 the Company owns 84.65% of EnergoNuclear SA. The main operating location is in Cernavodă in the eastern part of Romania, where the Company has two operating nuclear reactors (Nuclear Power Plant Units 1 and 2) and three nuclear reactors at inception stage, which are currently in conservation (Nuclear Power Plant Units 3-5). The Company’s reactors are based on CANDU technology (Canada Deuterium Uranium reactor of PHWR type).

The main activity of the Company is to generate electricity using nuclear power plants units 1 and 2. EnergoNuclear S.A. was established in March 2009, for the purpose of building and operating the two 720 MW CANDU 6 (Units 3 and 4) reactors at Cernavodă. Unit 5 is in conservation, being impaired 100%.

In accordance with the Electricity Law 13/2007, the electricity sector is regulated by the Romanian Energy Regulatory Authority (ANRE), an autonomous public institution. In accordance with Order no. 58/2008 and related amendments, ANRE establishes the tariffs to be used by the Company for selling electricity on regulated market. In 2011, the Company delivered approximately 60% of the electricity on regulated market.

As described in Note 11, as at 31 December 2011 the shareholders of the Company are: the Romanian State through the Ministry of Economy, Trade and Business (“MECMA”) which holds 229,006,139 shares, representing 90.27% of the share capital and Fondul Proprietatea which holds 24,676,222 shares, representing 9.73% of the share capital.

These consolidated financial statements were authorized for issue by the management of the Group on 17 August 2012.

2. BASIS OF PREPARATION

a) Statement of compliance

The Company’s financial statements as at and for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for the revaluation of property, plant and equipment which is measured at fair value as disclosed in the accounting policies (see Note 3d).

c) Functional and presentation currency

The consolidated financial statements are presented in Romanian Lei (“RON”), which is the Group’s functional currency. All financial information presented in RON has been rounded to the nearest million.



d) Use of estimates and judgements

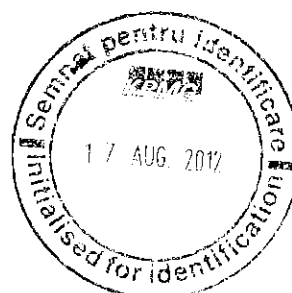
The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses (assumptions on determination of fair value of property, plant and equipment, on calculation of employee benefits obligations and income taxes). Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

e) Changes in accounting policies

On 1 January 2011 the Group adopted the amendment to IAS 24 *Related Party Disclosure*. The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.

The revised standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. The new standard reduces the current level of disclosure of related parties and of the balances and transactions with other government-controlled entities.



3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently with the exception described in Note 2 (e) to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss. Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Acquisitions of non-controlling interests

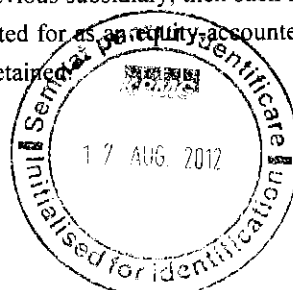
Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iv) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.



(v) Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost.

The financial statement include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies of the associate with those of the Group, from the date that significant influence is obtained until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency transactions

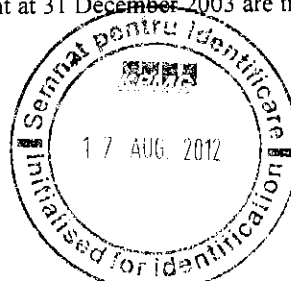
Transactions in foreign currencies are translated to RON by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated to RON at the exchange rates prevailing on that date. Exchange gains and losses, realised or unrealised, are included in profit or loss for that year. The exchange rates at 31 December 2011 and 31 December 2010 are as follows:

| Currency | 31 December 2011 | 31 December 2010 |
|----------|------------------|------------------|
| 1 EUR | 4.3197 | 4.2848 |
| 1 USD | 3.3393 | 3.2045 |
| 1 CAD | 3.2724 | 3.2102 |

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

c) Accounting for the effects of hyperinflation

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date. As the characteristics of the economic environment of Romania indicate that hyperinflation has ceased, effective from 1 January 2004 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these financial statements.



d) Property, plant and equipment (PP&E)

Revalued amount

Property, plant and equipment, except for assets in course of construction, nuclear units 3 and 4 and the related heavy water, are carried at revalued amount, based on valuations performed by external independent valuers by using the market values and depreciated replacement cost basis, less accumulated depreciation and impairment loss if applicable.

Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation reserve. However, the increase shall be recognised in profit and loss to the extent that it reverses a revaluation decrease of the same amount previously recognised in profit and loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation reserve.

The revaluation surplus included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Cost

Assets in course of construction are recorded at purchase or construction cost (restated to the equivalent purchasing power of the RON at 31 December 2003 for assets acquired before 1 January 2004).

Historically, the Nuclear Power Plant Units 1, 2, 3, 4 and 5 were considered as a single project and prior to 1990 the costs incurred were not accounted for separately. In 1991, the Company performed an allocation of these costs to each unit. This allocation represents the cost basis for the assets included within assets in course of construction and constructions and heavy water.

Recognition

Items of property, plant and equipment are measured initially at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.



Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

Depreciation

Land is not subject to depreciation as it is deemed to have an indefinite life. Assets in course of construction are not subject to depreciation. They are transferred to fixed assets on the date of commissioning and are depreciated over the useful economic life of the asset.

Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts, from the date the asset is available for use, over their estimated useful lives.

| | <u>Number of years</u> |
|--------------------------------------|------------------------|
| Nuclear power plants | 30 |
| Heavy water (load for Units 1 and 2) | 30 |
| Nuclear fuel | 8 |
| Buildings | 45 – 50 |
| Machinery and equipment | 3 - 10 |

Heavy water (load for Units 1 and 2), nuclear fuel, buildings, machinery and equipment are grouped together in Note 4 under the same heading “Machinery, equipment and other assets”.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The assets’ depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

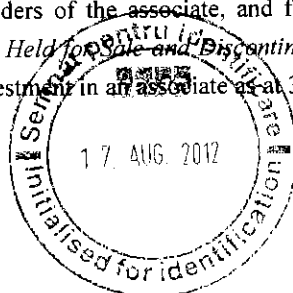
An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income or other operating expenses, in profit or loss. Borrowing costs incurred specifically for the purpose of acquiring or constructing items of property, plant or equipment are capitalised as part of the asset’s cost up to the date the assets are commissioned.

e) Non-current assets held for future investment in an associate

Constructions that initially had been classified as PP&E (Nuclear Power Plants Units 3 and 4) and subsequently are held for the purpose of transferring them to an associate at an undetermined future date, which is dependent upon future investment by other shareholders of the associate, and for which the criteria for classification as held-for-sale under *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* have not been met, are classified as PP&E held for future investment in associate as at 31 December 2010. These assets are measured at cost.

Heavy water that had been acquired for the purpose of transferring it to an associate at an undetermined future date, which is dependent upon future investment by other shareholders of the associate, and for which the criteria for classification as held-for-sale under *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* have not been met, is classified as a non-current asset held for future investment in an associate as at 31 December 2010. Since



SN Nuclearelectrica SA

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(All amounts are in million RON, unless stated otherwise)

the heavy water is not used and it does not depreciate chemically in such case, it is initially and subsequently measured at its cost.

As at 31 December 2011, these non-current assets (Nuclear Power Plants Units 3 and 4 and the related heavy water), are presented as “*Constructions and heavy water*” in note 4, included in the Property, Plant and Equipment caption of the consolidated financial statements, as the Company gained control over EnergoNuclear (see Note 7).

f) Intangible assets

The intangible assets of the Group are stated at their cost less any accumulated amortization and accumulated impairment losses. The amortization is recognized in profit or loss based on a straight-line basis over the estimated useful life of the intangible asset. Intangible assets consist mainly of customized software, which is amortized on a straight-line basis mainly over 5 years.

g) Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

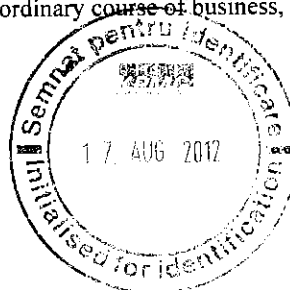
Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

h) Inventories

Inventories consist of consumables, spare parts, buffer stock, heavy water for Units 1 and 2, uranium and other inventories necessary for the activity of the Company. These materials are recorded as inventories when purchased and then expensed when consumed.

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out method, except for heavy water for which the Company applies weighted average cost method. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, if any, and selling expenses.



i) Recognition and derecognition of the non-derivative financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

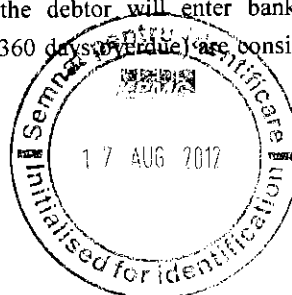
The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

j) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for doubtful debts. An allowance is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 360 days overdue) are considered indicators that the trade receivable is impaired.



SN Nuclearelectrica SA

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(All amounts are in million RON, unless stated otherwise)

The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within other operating expenses.

k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, in current accounts and bank deposits with original maturities of 3 months or less that are subject to an insignificant risk of charges in their fair value.

l) Share capital

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds.

m) Dividends

Dividends are recognized as a liability in the period in which their distribution is approved.

n) Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

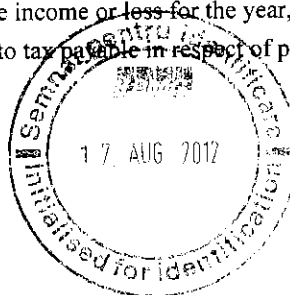
p) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

q) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.



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Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(All amounts are in million RON, unless stated otherwise)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

r) Employee benefits

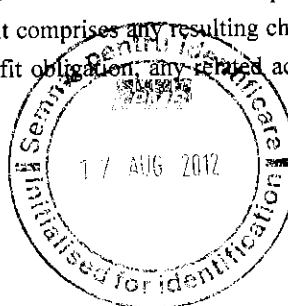
Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the yearend corresponding to the Romanian Treasury bonds issued for 15 years.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service cost that had not previously been recognised.



Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

Short-term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

s) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

t) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenues from sale of electricity (either generated by the Company or traded) are recognised upon delivery of energy to the national grid. Other revenues are recognised at the date of delivery of goods and after customer acceptance (where required).

u) Finance income and finance costs

Finance income comprises mainly interest income on bank deposits and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise mainly interest expense on borrowings and foreign currency losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.



v) New standards and interpretations not yet adopted

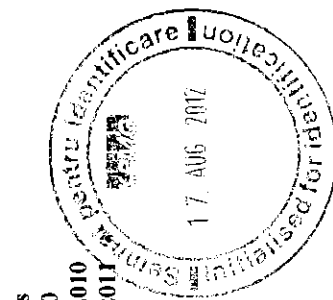
A number of new standards, amendments to standards and interpretations to existing standards are effective for annual periods beginning on and after 1 January 2011, and have not been applied in preparing these consolidated financial statements, except for the amendment to IAS 24 “Related Party Disclosures” (see note 2 e). None of these is expected to have a significant effect on these consolidated financial statements.



SN Nuclearelectrica SA
Notes to the Consolidated Financial Statements for the year ended 31 December 2011
(All amounts are in million RON, unless stated otherwise)

4. PROPERTY, PLANT AND EQUIPMENT

| Cost | Land | Nuclear power plants | Machinery, equipment and other assets | Constructions and heavy water | Assets in course of construction | PP&E held for future investment in associate | TOTAL |
|---|------|----------------------|---------------------------------------|-------------------------------|----------------------------------|--|--------|
| Balance as at 1 January 2010 | 41 | 7,415 | 1,279 | - | 618 | - | 9,353 |
| Additions | - | - | 15 | - | 164 | 1,252 | 1,431 |
| Transfers | (15) | 12 | 75 | - | (346) | 274 | - |
| Restatement transferred from inventories | - | - | - | - | 4 | 14 | 18 |
| Disposals | (1) | - | (24) | - | - | - | (25) |
| Balance as at 31 December 2010 | 25 | 7,427 | 1,345 | - | 440 | 1,540 | 10,777 |
| Balance as at 1 January 2011 | 25 | 7,427 | 1,345 | - | 440 | 1,540 | 10,777 |
| Additions | 2 | - | 6 | 289 | 214 | - | 511 |
| Additions from acquisition of a subsidiary | - | - | 1 | - | 96 | - | 97 |
| Reclassification from investment in associate | - | - | - | 1,540 | - | (1,540) | - |
| Transfers | - | 2 | 106 | - | (116) | - | (8) |
| Other transfers | - | - | - | 4 | (4) | - | - |
| Disposals | - | - | (16) | - | - | - | (16) |
| Balance as at 31 December 2011 | 27 | 7,429 | 1,442 | 1,833 | 630 | - | 11,361 |
| Depreciation and impairment losses | | | | | | | |
| Balance as at 1 January 2010 | - | 776 | 246 | - | 137 | - | 1,159 |
| Depreciation charge | - | 296 | 65 | - | - | - | 361 |
| Accumulated depreciation of disposals | - | - | (3) | - | - | - | (3) |
| Balance as at 31 December 2010 | - | 1,072 | 308 | - | 137 | - | 1,517 |
| Balance as at 1 January 2011 | - | 1,072 | 308 | - | 137 | - | 1,517 |
| Depreciation charge | - | 297 | 68 | - | - | - | 365 |
| Accumulated depreciation of disposals | - | - | (2) | - | - | - | (2) |
| Balance as at 31 December 2011 | - | 1,369 | 374 | - | 137 | - | 1,880 |
| Carrying amounts | | | | | | | |
| At 1 January 2010 | 41 | 6,639 | 1,033 | - | 481 | - | 8,194 |
| At 31 December 2010 | 25 | 6,355 | 1,037 | - | 303 | 1,540 | 9,260 |
| At 31 December 2011 | 27 | 6,060 | 1,068 | 1,833 | 493 | - | 9,481 |



SN Nuclearelectrica SA

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(All amounts are in million RON, unless stated otherwise)

Machinery, equipment and other assets comprise mainly the first load of heavy water used for units 1 and 2, with a net book value as at 31 December 2011 of 481.

Unit 5 remains fully impaired because at present there are no plans to resume construction on this unit. As at 31 December 2011, the impairment of 137 refers to Unit 5.

Land, buildings and Units 1 and 2 were revalued as at 31 December 2009, based on the valuation report prepared by the independent valuers (see Note 3d).

Revalued amount for property, plant and equipment categories is determined as described below:

- Land is carried at revalued amount determined at 31 December 2009.
- The nuclear power plants 1 and 2 are carried at revalued amounts; the latest valuation was carried out by independent valuers at 31 December 2009.
- Buildings are carried at revalued amount, based on valuations performed by external independent valuers (latest at 31 December 2009). Buildings were previously valued by external independent valuers at 31 December 2007.
- Machinery, equipment and other assets are carried at revalued amounts, based on valuations performed by external independent valuers (latest at 31 December 2002).

Units 3 and 4 and the related heavy water acquired for these two units were reclassified as *Constructions and heavy water* in February 2011 as the Company gained control over EnergoNuclear (see Note 7). These items were classified as PP&E held for future investments in associate as at 31 December 2010. As at 31 December 2011 Units 3 and 4 are in amount of 292 (288 as at 31 December 2010), while heavy water is in amount of 1,541(1,252 as at 31 December 2010). Heavy water is purchased from Romanian Authority for Nuclear Activities (RAAN). As at 31 December 2011, Nuclearelectrica has purchased 862 tonnes of heavy water.

According to the investors' agreement referring to EnergoNuclear, approved by the Government Decision no. 1565/November 2008, the Company will sell certain assets (e.g. Units 3 and 4 and the related heavy water acquired for these two units) to EnergoNuclear in exchange of shares in this company. Prior to the sale these assets will be subject to an independent valuation. The heavy water was acquired by the Company only for the purpose of transferring it to EnergoNuclear as a future investment in respect of additional shares in this company. The sale will take place during the construction period of Units 3 and 4. The other shareholders in EnergoNuclear will transfer cash to this company in value that reflects pro-rata the same amount of investment per-share as the Company and receive shares in EnergoNuclear so that after the transfer all shareholders will hold the same percentage as before.

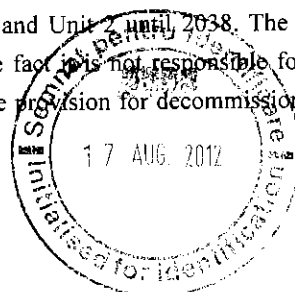
The main investments made by the Company during 2011 were represented by:

- enhancement of the nuclear security functions in amount of 32;
- modernization and expansion of physical protection at CNE Cernavodă, in order to align to the new legislative requirements in force in amount of 25;
- integrated plant management software in amount of 23;

During 2011 the Group has acquired PPE items on suppliers' credit in amount of 37.

Decommissioning on nuclear power plants

The nuclear power Unit 1 is scheduled to operate until 2027 and Unit 2 until 2038. The Company did not record provisions for decommissioning of these two units, due to the fact that it is not responsible for these decommissioning workings. As of 31 December 2007, the Company reversed the provision for decommissioning of Unit 2, due to the



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Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(All amounts are in million RON, unless stated otherwise)

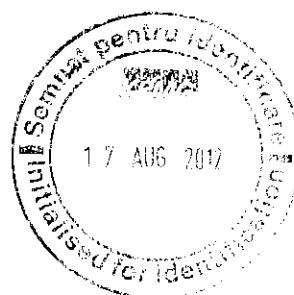
fact that this obligation is assumed by the Nuclear Agency and Radioactive Waste (ANDR). According to GD no. 1080/5 September 2007, ANDR is responsible with collecting the contributions paid by the Company for the remaining useful life of these units and assume the responsibility for the management of the entire decommissioning process at the end of useful lives of the units, and also for storage of the resulting waste (see Note 16).

Assets pledged as security

As at 31 December 2011, the Company has not pledged or mortgaged assets.

5. INTANGIBLE ASSETS

| | Licences and acquired software | Power plant software | TOTAL |
|---------------------------------------|---|-----------------------------|--------------|
| Cost | | | |
| Balance as at 1 January 2010 | 50 | 59 | 109 |
| Additions | 2 | 20 | 22 |
| Disposals | (1) | (1) | (2) |
| Balance as at 31 December 2010 | 51 | 78 | 129 |
| Balance as at 1 January 2011 | 51 | 78 | 129 |
| Additions | 1 | 1 | 2 |
| Transfers from tangibles | - | 8 | 8 |
| Disposals | (6) | (1) | (7) |
| Balance as at 31 December 2011 | 46 | 86 | 132 |
| Accumulated amortisation | | | |
| Balance as at 1 January 2010 | 24 | 19 | 43 |
| Amortisation for the year | 12 | 10 | 22 |
| Accumulated amortisation of disposals | (1) | - | (1) |
| Balance as at 31 December 2010 | 35 | 29 | 64 |
| Balance as at 1 January 2011 | 35 | 29 | 64 |
| Amortisation for the year | 9 | 13 | 22 |
| Accumulated amortisation of disposals | (6) | (1) | (7) |
| Balance as at 31 December 2011 | 38 | 41 | 79 |
| Carrying amounts | | | |
| At 1 January 2010 | 26 | 40 | 66 |
| At 31 December 2010 | 16 | 49 | 65 |
| At 31 December 2011 | 8 | 45 | 53 |



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Notes to the Consolidated Financial Statements for the year ended 31 December 2011

*(All amounts are in million RON, unless stated otherwise)***6. INVESTMENT IN ASSOCIATE**

| | <u>31 December 2011</u> | <u>31 December 2010</u> |
|--------------------------------|-------------------------|-------------------------|
| Investment in EnergoNuclear SA | - | 45 |
| TOTAL | <u>-</u> | <u>45</u> |

As at 31 December 2010, the Company hold shares in amount of 45 representing 60.15% of the share capital of EnergoNuclear SA. As at 31 December 2010, EnergoNuclear is considered an associate because the Company does not control EnergoNuclear SA considering the fact that the decisions of General Shareholders Meeting are made with a majority of 75% of the votes of the shareholders. As at 31 December 2010 the cost of the investment in EnergoNuclear SA is 49 and was reduced with the Company's share of the loss in EnergoNuclear SA to 45. The Company obtained control of EnergoNuclear SA on 28 February 2011 (see Note 7).

7. ACQUISITION OF SUBSIDIARY

On 28 February 2011 the Company obtained control of EnergoNuclear SA by acquiring the shares of RWE Power Romania, Iberdrola Generation S.A.U. and GDF Suez S.A.. The Company paid 19 in exchange of these shares, shares that were acquired at the nominal value of RON 3.9389 per share.

The Company acquired from these three companies shares representing 24.50% of EnergoNuclear SA. As a result, the Company's equity interest in EnergoNuclear SA increased from 60.15% to 84.65%.

The financial position of EnergoNuclear SA was composed mainly by property, plant and equipment (mainly construction in progress) and share capital. Construction in progress represents mainly consultancy services for building nuclear units 3 and 4. No goodwill was recognized as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in EnergoNuclear SA was equal with the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. EnergoNuclear SA does not yet generate any revenue or does not have trade receivables.

EnergoNuclear SA is considered a subsidiary considering the fact that the Company holds control of EnergoNuclear SA. Accordingly, EnergoNuclear SA was consolidated in these financial statements (see Note 18).

8. INVENTORIES

As at 31 December 2011 and 31 December 2010 inventories are as follows:

| | <u>31 December 2011</u> | <u>31 December 2010</u> |
|-------------------------------|-------------------------|-------------------------|
| Heavy water for Units 1 and 2 | 65 | 73 |
| Spare parts | 230 | 239 |
| Materials and supplies | 44 | 44 |
| Nuclear fuel | 78 | 72 |
| Uranium | 35 | 32 |
| Other inventories | 4 | 17 |
| TOTAL | <u>456</u> | <u>477</u> |



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Notes to the Consolidated Financial Statements for the year ended 31 December 2011

*(All amounts are in million RON, unless stated otherwise)***9. TRADE AND OTHER RECEIVABLES**

As at 31 December 2011 and 31 December 2010 trade and other receivables are as follows:

| | <u>31 December 2011</u> | <u>31 December 2010</u> |
|-----------------------------|-------------------------|-------------------------|
| Trade receivables | 217 | 324 |
| Trade receivables allowance | (9) | (1) |
| VAT recoverable | - | 8 |
| Other receivables | 19 | 20 |
| Total | <u>227</u> | <u>351</u> |

As at 31 December 2011, the biggest clients outstanding are: Hidroelectrica SA – 35, RAAN – 19, Enel Energie SA-16. The total sales made during 2011 to Hidroelectrica SA represented around 7% from Company's total revenues.

The Bucharest Tribunal admitted on 20 June 2012 the opening of insolvency procedure for Hidroelectrica SA (please see Note 22). The Company collected 6 from Hidroelectrica SA until the approval of these consolidated financial statements from the outstanding amount as at 31 December 2011.

10. RESTRICTED CASH, CASH AND CASH EQUIVALENTS

As at 31 December 2011 and 31 December 2010 cash and cash equivalents are as follows:

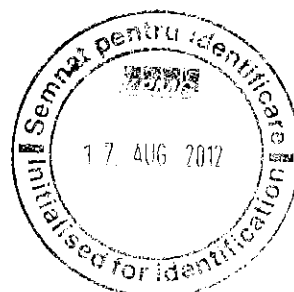
| | <u>31 December 2011</u> | <u>31 December 2010</u> |
|--|-------------------------|-------------------------|
| Cash at bank in RON | 593 | 387 |
| Cash at bank in foreign currencies | 18 | 87 |
| Total cash and cash equivalents | <u>611</u> | <u>474</u> |

As at 31 December 2011 the restricted cash is in amount of 96, being bank deposits with an initial maturity higher than 3 months.

11. EQUITY*Share capital*

The Company was formed by separation from the former RENEL. The share capital represents the State contribution at the formation of the Company on 30 June 1998 (restated for inflation to 31 December 2003 as described in Note 3.d) plus subsequent increases.

The statutory share capital is 2,537 as at 31 December 2011, fully paid (31 December 2010: 2,537) which consists of 253,682,361 (31 December 2010: 253,682,361) fully paid-in ordinary shares each having a nominal value of 10. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.



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Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(All amounts are in million RON, unless stated otherwise)

The shareholders' structure as at 31 December 2011 and 31 December 2010 was as follows:

| | <u>No. of shares</u> | <u>% of shareholding</u> |
|--------------------------------------|----------------------|--------------------------|
| The Romanian State through ("MECMA") | 229,006,139 | 90.27 |
| Fondul Proprietatea SA | 24,676,222 | 9.73 |
| TOTAL | 253,682,361 | 100 |

Prepaid share reserve

Prepaid share reserve of 1,617 as at 31 December 2011 (31 December 2010: 1,364) represents mainly cash contributions from State Budget towards the Company for construction of nuclear Unit 2 and for acquisition of heavy water from RAAN related to Units 3 and 4. In accordance with GD 365/1998, these amounts will be used in the future to increase the Company's share capital.

Revaluation reserves

The revaluation reserve is in amount of 1,469 as at 31 December 2011 and 1,474 respectively as at 31 December 2010. The Company recorded during 2009 a deferred tax liability for revaluation reserve as not whole is deductible (see Note 14).

Retained earnings

Retained earnings represent the accumulated results of the Group. The retained earnings are distributable based on the statutory non-consolidated financial statements.

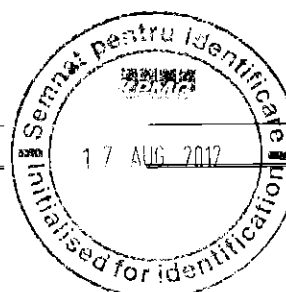
12. LONG TERM BORROWINGS

As at 31 December 2011 and 31 December 2010 long term loans, net of upfront costs are as follows:

| | <u>31 December 2011</u> | <u>31 December 2010</u> |
|--|-------------------------|-------------------------|
| Loans from foreign banks | 2.088 | 2.161 |
| Loans from domestic banks | 156 | 208 |
| | 2.244 | 2.369 |
| Less current portion of long term borrowings | (177) | (175) |
| Total long term borrowings | 2.067 | 2.194 |

Long-term debt, shown gross of an amount of RON 92 (31 December 2010: RON 116) representing up-front costs of obtaining the loans, is repayable as follows:

| | <u>31 December 2011</u> | <u>31 December 2010</u> |
|-------------------|-----------------------------|-----------------------------|
| 1 to 2 years | 220 | 175 |
| 2 to 3 years | 220 | 218 |
| 3 to 4 years | 207 | 218 |
| 4 to 5 years | 207 | 204 |
| more than 5 years | 1.305 | 1.495 |
| Total | 2.159 | 2.310 |



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Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(All amounts are in million RON, unless stated otherwise)

As at 31 December 2011 and 31 December 2010 long term loans from credit institutions are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|-----------------------------|-----------------------------|
| Societe Generale - ALSTOM BC (a) | 25 | 30 |
| Societe Generale - ANSALDO BC (b) | 349 | 379 |
| Societe Generale - AECL BC (c) | 751 | 807 |
| Societe Generale - NEXANS BC (d) | 32 | 37 |
| Societe Generale - GENERAL ELECTRIC (e) | 59 | 66 |
| EURATOM – (f) | 964 | 958 |
| BCR – (g) | 156 | 208 |
| Total long term loans from credit institutions | 2,336 | 2,485 |
| Less: Current amount of the long term loans | (177) | (175) |
| Less: Upfront cost of obtaining the loan | (92) | (116) |
| Total long term loans, net of current amounts | 2,067 | 2,194 |

Long term loans are detailed as follows:

a) Loan from Societe Generale – ALSTOM

The loan was granted by Societe Generale to the Company in 2002. The face value of the loan is EUR 10.7 million. As at 31 December 2011 the outstanding amount is of EUR 5.9 million. Repayment is scheduled over 11 years in 20 instalments from December 2007 until June 2017. The loan bears a variable interest rate of six months EURIBOR plus 0.45% margin. The loan is guaranteed by the Romanian Government through the Ministry of Public Finance. As at 31 December 2011 the outstanding amount is 25.

b) Loan from Societe Generale – ANSALDO

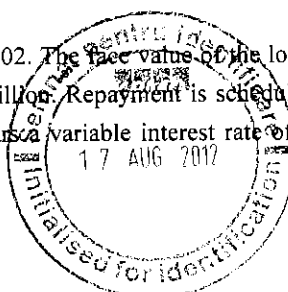
The loan was granted by Societe Generale to the Company in 2002. The face value of the loan is EUR 115.3 million. As at 31 December 2011 the total amount outstanding is EUR 80.7 million. Repayment is scheduled over 16 years, in 30 instalments from December 2007 until June 2022. The loan bears a variable interest rate of six months EURIBOR plus 0.45% margin for the first 15 years, and six months EURIBOR plus 0.7% for the remaining period. The loan is guaranteed by the Romanian Government through the Ministry of Public Finance. As at 31 December 2011 the outstanding amount is 349.

c) Loan from Societe Generale – AECL

The loan was granted by Societe Generale to the Company in 2002. The face value of the loan is CAD 327.8 million. As at 31 December 2011 the outstanding amount is of CAD 229.5 million. Repayment is scheduled over 16 years, in 30 instalments from December 2007 until June 2022. The loan bears a variable interest rate of six months CDOR plus 0.375% margin. The loan is guaranteed by the Romanian Government through the Ministry of Public Finance. As at 31 December 2011 the outstanding amount is 751.

d) Loan from Societe Generale – NEXANS

The loan was granted by Societe Generale to the Company in 2002. The face value of the loan is EUR 13.4 million. As at 31 December 2011 the outstanding amount is EUR 7.3 million. Repayment is scheduled over 11 years, in 20 instalments from December 2007 until June 2017. The loan bears a variable interest rate of six months EURIBOR



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Notes to the Consolidated Financial Statements for the year ended 31 December 2011

(All amounts are in million RON, unless stated otherwise)

plus 0.45% margin. The loan is guaranteed by the Romanian Government through the Ministry of Public Finance. As at 31 December 2011 the outstanding amount is 32.

e) *Loan from Societe Generale – GENERAL ELECTRIC*

The loan was granted by Societe Generale to the Company in 2003. The face value of the loan is USD 29.5 million. As at 31 December 2011 the outstanding amount is USD 17.7 million. Repayment is scheduled over 10 years, in 20 instalments from January 2008 until July 2017. The loan bears a variable interest rate of six months LIBOR plus 0.07% margin. The loan is guaranteed by the Romanian Government through the Ministry of Public Finance. As at 31 December 2011 the outstanding amount is 59.

f) *Loan from EURATOM*

The loan was granted by Euratom to the Company in 2004. The face value of the loan is EUR 223.5 million. As at 31 December 2011 the outstanding amount is EUR 223.5 million, having three parts: (i) first part with an outstanding amount of EUR 100 million; (ii) the second part with an outstanding amount of EUR 90 million and (iii) the third part with an outstanding amount of EUR 33.5 million. The first part is to be reimbursed during 2013 – 2022, the second one between 2015- 2024 and the third one between 2017 and 2024. The loan bears a variable interest rate of six months EURIBOR plus 0.08% margin for the first two parts and six months EURIBOR plus 0.079% for the third part. The loan is guaranteed by the Romanian Government through the Ministry of Public Finance. As at 31 December 2011 the outstanding amount is 964.

The loan agreement includes certain financial covenants: (i) the debt service ratio should be no less than 1.5; (ii) the gearing ratio should be no greater than 2; (iii) the income received by the borrower should be sufficient to cover all costs of operation and maintenance of Units 1 and 2 and the debt service in connection with Units 1 and 2.

These financial indicators should be determined based on financial statements prepared in accordance with IFRS.

The financial covenants requested for EURATOM loan are met by the Company as at 31 December 2011.

g) *Loan from BCR*

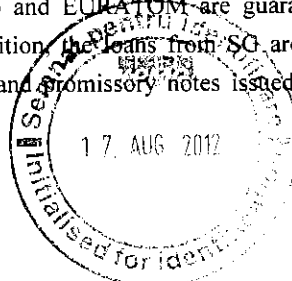
The loan contracted from the Ministry of Public Finance in 2007 was made available to the Company through the Romanian Commercial Bank (BCR). The face value of the loan is 285.6. As at 31 December 2011 the outstanding amount is 156. The repayment is scheduled over 6 years, in 11 instalments from July 2009 until July 2014. The loan bears a variable interest rate of six months BUBOR less a negative margin of 1.1%.

All the loans contracted by the Company were used for investments in Unit 2.

The Company has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposure. The fair value of long term borrowings, which is estimated by discounting the future contractual cash flows at the current market interest rate available for similar financial instruments, does not materially differ from the above carrying values.

Guarantees

The loans with foreign banks from Société Générale („SG”) and EURATOM are guaranteed by the Romanian Government through the Ministry of Public Finance. In addition, the loans from SG are guaranteed by external insurers (COFACE, SACE, EDC and Eximbank-New York) and promissory notes issued by the Company in the lender’s favour.



SN Nuclearelectrica SA

Notes to the Consolidated Financial Statements for the year ended 31 December 2011

*(All amounts are in million RON, unless stated otherwise)***13. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

As at 31 December 2011 and 31 December 2010 trade and other liabilities are as follows:

| | 31 December 2011 | 31 December 2010 |
|--|-------------------------|-------------------------|
| Fixed assets suppliers | 46 | 41 |
| Trade payables | 87 | 106 |
| Accrued interest on long-term bank loans | 7 | 6 |
| Payables to employees | 8 | 7 |
| Payables to State | 38 | 22 |
| Other payables | 2 | - |
| Total | 188 | 182 |

As at 31 December 2011, the main outstanding suppliers were: SNC Lavalin Nuclear INC-28, CN Transelectrica SA-19 and SC Elcomex-IEA SA -9.

14. INCOME TAXES

In 2011 and 2010 the income tax expense consists of the following:

| | 2011 | 2010 |
|---------------------|-------------|-------------|
| Deferred tax income | 5 | 4 |
| Current tax expense | (25) | (8) |
| Total | (20) | (4) |

Deferred tax assets and liabilities are measured at the effective tax rate of 16% as at 31 December 2011 (16% as at 31 December 2010), which is the currently enacted tax rate.

Deferred tax balances consist of the following:

| | Assets | | Liabilities | | Net | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 31 Dec 2011 | 31 Dec 2010 | 31 Dec 2011 | 31 Dec 2010 | 30 Dec 2011 | 31 Dec 2010 |
| PP&E | - | - | 153 | 157 | 153 | 157 |
| Inventories | - | - | 13 | 14 | 13 | 14 |
| Employee benefits | (4) | (4) | - | - | (4) | (4) |
| Net tax (assets)/liabilities | (4) | (4) | 166 | 171 | 162 | 167 |



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(All amounts are in million RON, unless stated otherwise)

The movements in deferred tax liability during 2010 and 2011 are as follows:

| Elements | Balance 1 January 2010 | Recognised in profit or loss | Balance 31 December 2010 | Recognised in profit or loss | Balance 31 Dec 2011 |
|-------------------------------------|------------------------|------------------------------|--------------------------|------------------------------|---------------------|
| PP&E | 157 | - | 157 | (4) | 153 |
| Inventories | 17 | (3) | 14 | (1) | 13 |
| Employee benefits | (3) | (1) | (4) | - | (4) |
| Net tax (assets)/liabilities | 171 | (4) | 167 | (5) | 162 |

Starting with 1 May 2009, according to the changes in the fiscal treatment of revaluation reserves, in compliance with Government Emergency Ordinance no. 34/2009, amending the Fiscal Code, the revaluations performed by the Company after 1 January 2004 and booked on statutory financial statements, will be taxed simultaneously with the deduction of the fiscal depreciation, respectively when the assets are disposed, as appropriate. The Company recognized deferred tax liability for this revaluation reserve.

The numerical reconciliations between income tax expense and the product between accounting result and the applicable profit tax rate are as follows:

| | 2011 | 2010 |
|--------------------------------------|------------|----------|
| Profit before income tax | 103 | 8 |
| Income tax at statutory rate of 16% | 16 | 1 |
| Effect of non-deductible expenses | 8 | 6 |
| Effect of tax exempt income | (2) | (2) |
| Tax effect of deferred tax liability | (5) | (4) |
| Effect of other differences | 3 | 3 |
| Income tax expense | 20 | 4 |

15. Employee benefits

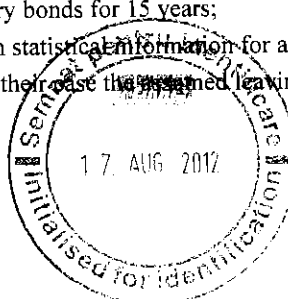
| | 31 December 2011 | 31 December 2010 |
|--------------------|------------------|------------------|
| Retirement bonuses | 12 | 14 |
| Jubilee bonuses | 5 | 6 |
| Death benefits | 4 | 6 |
| Total | 21 | 26 |

The Company has the obligation to pay the following employee benefits:

- Retirement bonuses depending on the length of service within the Company at the retirement date;
- Jubilee bonuses for continuously working in the energetic system, given once depending on the employment period within the Group.
- Death benefits.

For the estimation of the employee benefits provision, the Group used the following assumptions:

- the discount rate used for the year ended 31 December 2011 was 5.4% (31 December 2010: 9.98 %) and represents the interest corresponding to the Romanian Treasury bonds for 15 years;
- an average annual staff turnover of 1% was assumed based on statistical information for all employees, except the employees who have less than three years until retirement, in their case the assumed leaving rate is 0%;



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- the future salary increases were assumed to be at inflation rate. The inflation rate was estimated to be 3.14% in 2011, 3.5% p.a. for the period 2012-2013 and 3% p.a. for the period 2014-2026.
- the mortality tables used were the one issued by the National Institute of Statistics (mortality table 2009-2010);

16. OTHER OPERATING EXPENSES

| | 2011 | 2010 |
|---|-------------|-------------|
| Third party services | 126 | 126 |
| Expenses with ANDR | 94 | 90 |
| Energy and water | 77 | 33 |
| Fuels, lubricants and other consumables | 35 | 40 |
| Insurance | 11 | 10 |
| Provisions for litigation | (5) | (10) |
| Transportation and telecommunication | 9 | 8 |
| Other operating expenses | 51 | 49 |
| Total | 398 | 346 |

Decommissioning provision

Prior to 2007, the Company had recognised a decommissioning provision in respect of future costs relating to the decommissioning of Nuclear Plant – Unit 1.

Starting in 2007, following the Government Decision no. 1080/5 September 2007 regarding the safe management of the radioactive waste and the decommissioning of the nuclear installations, the Company is required to make two types of contributions to the ANDR:

- Contributions for the decommissioning of each nuclear unit amounting to 0.6 EUR/MWh of electricity produced.
- Contributions for the permanent storage of radioactive waste of 1.4 EUR/MWh of electricity produced.

According to this legislative act, ANDR is responsible for the collection of these contributions over the remaining useful life of both the nuclear units, and consequently, ANDR assumes responsibility for managing the entire decommissioning process at the end of the useful life of the Nuclear Plants and the storage of resulting waste.

17. FINANCE INCOME AND FINANCE COSTS

| | 2011 | 2010 |
|--------------------------|--------------|--------------|
| Interest income | 33 | 27 |
| Foreign exchange gains | 242 | 227 |
| Other financial income | 8 | 8 |
| Finance income | 283 | 262 |
| Foreign exchange losses | (267) | (362) |
| Interest expense | (74) | (72) |
| Finance costs | (341) | (434) |
| Net finance costs | (58) | (172) |



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Notes to the Consolidated Financial Statements for the year ended 31 December 2011

*(All amounts are in million RON, unless stated otherwise)***18. GROUP ENTITIES**

The Group companies and the percentage of ownership exercised by the Company are as follows:

| Entity | Country of origin | 31 December 2011 % of total shares | 31 December 2010 % of total shares |
|------------------|--------------------------|---|---|
| EnergONuclear SA | Romania | 84.65 | 60.15 |

As at 31 December 2011 other shareholders in EnergONuclear SA are:

- Arcelor Mittal Galati S.A. – 6.20%;
- Enel Investment Holding BV – 9.15%;

EnergONuclear SA

EnergONuclear SA, with registered offices in 5 - 7 Vasile Lascar Street, sector 1, Bucharest has as main activity the construction of nuclear units 3 and 4 at Cernavodă. The share capital as of 31 December 2011 was in amount of 102. The entire share capital is subscribed and paid.

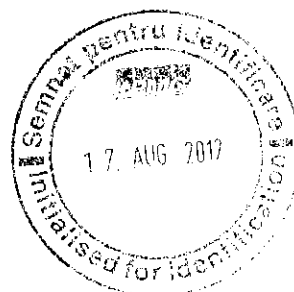
19. RELATED PARTY TRANSACTIONS**i) Transactions with state – owned companies**

The Group operates in an economic environment dominated by entities directly controlled by the Government of Romania through its government authorities and agencies, collectively referred to as government-related entities.

The Group had significant transactions with other government-related entities: sales and purchases of electricity (OPCOM, Electrica, Hidroelectrica, Electrica Furnizare, Apele Romane Bucuresti, and Uranium National Company), purchase of energy transmission services (C.N.T.E.E Transelectrica SA) and purchase of heavy water (RAAN).

Significant transactions with Group related parties during 2011 and 2010 consist of the following:

| | Sales | |
|-----------------------------|--------------|-------------|
| | 2011 | 2010 |
| Electrica Furnizare | 163 | 186 |
| OPCOM | 134 | 75 |
| Electrica | 131 | 117 |
| RAAN | 120 | 78 |
| Hidroelectrica | 107 | 169 |
| C.N.T.E.E Transelectrica SA | 91 | 83 |
| Total | 746 | 708 |



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(All amounts are in million RON, unless stated otherwise)

| | Purchases | |
|-----------------------------|------------------|-------------|
| | 2011 | 2010 |
| RAAN | 289 | 371 |
| C.N.T.E.E Transelectrica SA | 111 | 117 |
| Uranium National Company | 89 | 90 |
| Apele Romane Bucuresti | 59 | 11 |
| Total | 548 | 589 |

ii) Guarantees received from the Romanian Government through the Ministry of Public Finance

All loans are guaranteed by the Romanian Government through the Ministry of Public Finance (see Note 12).

iii) Key management salaries

Salaries paid to key management for their services are made up of a contractual salary and a performance bonus depending on operating results.

Additional fees, compensation and allowances may be paid to management for their services in that capacity, and also for attending board meetings.

| | 2011 | 2010 |
|---------------------|-------------|-------------|
| Management salaries | 1.14 | 0.96 |

20. FINANCIAL RISK MANAGEMENT**(i) Financial risk factors**

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Group does not have formal arrangements to mitigate financial risks. Despite the fact that no formal arrangements are in place, the financial risks are monitored by top level management considering the financial needs of the Group in order to make sure that the opportunities and threats are matched efficiently. The financial department prepares daily cash flow forecasts which help the management in the process of taking decision.

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments.



(a) Currency risk

The Group is exposed to the changes in the foreign exchange rates due to its long term borrowings and commercial debts denominated in foreign currencies.

The Group's functional currency is RON. The Group is exposed to foreign currency risk on purchases and borrowings that are denominated in a currency other than the functional currency of the Group. The currencies giving rise to this risk are primarily EUR, USD and CAD. The long-term loans are denominated in foreign currencies, which are retranslated at the prevailing exchange rate at each reporting date, as communicated by Romanian National Bank. The resulting differences are charged or credited to profit or loss, but do not affect cash flows until the settlement of the amount.

The Group's exposure to foreign currency risk expressed in RON, was as follows:

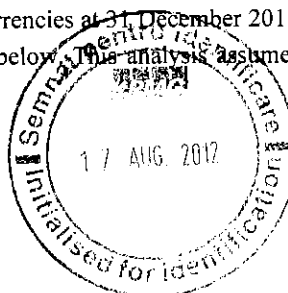
| | Carrying amount | RON | EUR | USD | CAD |
|--|-----------------|--------------|----------------|-------------|--------------|
| 31 December 2011 | | | | | |
| Monetary assets | | | | | |
| Monetary liabilities | | | | | |
| Trade Payables & Suppliers of fixed assets | (133) | (94) | (6) | - | (33) |
| Borrowings | (2,336) | (156) | (1,370) | (59) | (751) |
| Gross exposure in the statement of financial position | (2,469) | (250) | (1,376) | (59) | (784) |
| 31 December 2010 | | | | | |
| Monetary assets | | | | | |
| Monetary liabilities | | | | | |
| Trade Payables & Suppliers of fixed assets | (147) | (138) | (1) | (4) | (4) |
| Borrowings | (2,485) | (208) | (1,404) | (66) | (807) |
| Gross exposure in the statement of financial position | (2,632) | (346) | (1,405) | (70) | (811) |

The following significant exchange rates were used:

| | Average rate | | Reporting date spot rate | |
|----------|--------------|--------|--------------------------|------------------|
| | 2011 | 2010 | 31 December 2011 | 31 December 2010 |
| RON/ EUR | 4.2379 | 4.2099 | 4.3197 | 4.2848 |
| RON/ USD | 3.0486 | 3.1799 | 3.3393 | 3.2045 |
| RON/ CAD | 3.0810 | 3.0859 | 3.2724 | 3.2102 |

Sensitivity analysis

A 10 percent strengthening of the RON against the following currencies at 31 December 2011 and 31 December 2010 would have increased profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.



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(All amounts are in million RON, unless stated otherwise)

| | Profit 2011 | Profit 2010 |
|--------------|--------------------|--------------------|
| EUR | 137 | 141 |
| USD | 6 | 7 |
| CAD | 78 | 81 |
| Total | 221 | 229 |

A 10 percent weakening of the RON against the following currencies at 31 December 2011 and 31 December 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

| | Loss 2011 | Loss 2010 |
|--------------|------------------|------------------|
| EUR | (137) | (141) |
| USD | (6) | (7) |
| CAD | (78) | (81) |
| Total | (221) | (229) |

(b) Interest rate risk

The Group's operating cash flows are impacted by the changes in interest rates, mainly due to the foreign long term borrowings the Group contracted. All Groups' loans bear variable interest rates.

The interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Group has significant long-term loans incurring interest at variable rates that expose the Group to significant cash flow risk.

Sensitivity analysis of interest rate

An increase of 100 basis points in interest rates at the reporting date would have decreased profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

| | Loss 2011 | Loss 2010 |
|-----|------------------|------------------|
| RON | (2) | (2) |
| EUR | (14) | (14) |
| USD | (1) | (1) |
| CAD | (8) | (8) |
| | (25) | (25) |

A decrease of 100 basis points in interest rates at the reporting date would have increased profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

| | Profit 2011 | Profit 2010 |
|-----|--------------------|--------------------|
| RON | 2 | 2 |
| EUR | 14 | 14 |
| USD | 1 | 1 |
| CAD | 8 | 8 |
| | 25 | 25 |



(c) *Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Group's receivables from customers and investment securities.

Financial assets, which potentially subject this Group to credit risk, consist principally of trade receivables and cash and cash equivalents. The Group has policies in place to ensure that sales of electricity are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment adjustment, represents the maximum amount exposed to credit risk.

The Group has significant concentrations of credit risk: about 17% of the Group's receivables are due from Hidroelectrica (see Note 9).

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date was:

| | Carrying amount | |
|---------------------------|------------------|------------------|
| | 31 December 2011 | 31 December 2010 |
| Financial assets | | |
| Trade receivables | 208 | 323 |
| Restricted cash | 96 | - |
| Cash and cash equivalents | 611 | 474 |
| Other receivables | 19 | 28 |
| | 934 | 825 |

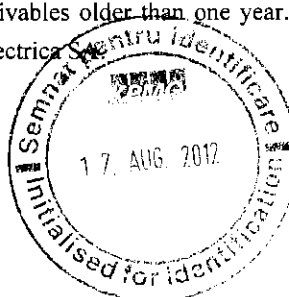
The ageing of trade receivables at the reporting date is:

| | Gross 31 December 2011 | Impairment 31 December 2011 | Gross 2010 | Impairment 2010 |
|-------------------------------|------------------------------|-----------------------------------|---------------|--------------------|
| Neither past due nor impaired | 155 | - | 165 | - |
| Past due 1 – 30 days | 1 | - | - | - |
| Past due 31 – 90 days | 18 | - | 42 | - |
| Past due 91 – 180 days | 28 | - | 54 | - |
| Past due 181 – 270 days | 1 | - | 44 | - |
| Past due 271 – 365 days | 8 | (3) | 1 | - |
| Past due more than one year | 6 | (6) | 18 | (1) |
| Total | 217 | (9) | 324 | (1) |

The movement in the allowance for doubtful debts in respect of trade receivables and other receivables during the year was as follows:

| | 31 December 2011 | 31 December 2010 |
|--------------------------------|------------------|------------------|
| Balance at 1 January | (1) | (1) |
| Net impairment loss recognized | (8) | - |
| Balance at period end | (9) | (1) |

The allowance for impairment increased in order to cover the receivables older than one year. The most important amounts to recover are from SC Proconex Universal SRL and SC Electrica



(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by obtaining financing from private banks and the majority shareholder's support.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within one year equal their carrying balances as the impact of discounting is not significant.

| | Carrying amount | Contractual amount | 12 months or less | Between 1-2 years | Between 2-5 years | Over 5 years |
|--|-----------------|--------------------|-------------------|-------------------|-------------------|--------------|
| 31 December 2011 | | | | | | |
| Financial liabilities | | | | | | |
| Borrowings | 2,244 | 2,584 | 221 | 258 | 721 | 1,384 |
| Trade Payables & Suppliers of fixed assets | 133 | 133 | 133 | - | - | - |
| Other payables | 55 | 55 | 55 | - | - | - |
| | <u>2,432</u> | <u>2,772</u> | <u>409</u> | <u>258</u> | <u>721</u> | <u>1,384</u> |

| | Carrying amount | Contractual amount | 12 months or less | Between 1-2 years | Between 2-5 years | Over 5 years |
|--|-----------------|--------------------|-------------------|-------------------|-------------------|--------------|
| 31 December 2010 | | | | | | |
| Financial liabilities | | | | | | |
| Borrowings | 2,369 | 2,711 | 216 | 211 | 716 | 1,568 |
| Trade Payables & Suppliers of fixed assets | 147 | 147 | 147 | - | - | - |
| Other payables | 35 | 35 | 35 | - | - | - |
| | <u>2,551</u> | <u>2,893</u> | <u>398</u> | <u>211</u> | <u>716</u> | <u>1,568</u> |

(ii) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Capital consists of share capital, prepaid share reserve, revaluation reserve, retained earnings and non-controlling interests of the Group.



The gearing ratios as at 31 December 2011 and 31 December 2010 were as follows:

| | 31 December 2011 | 31 December 2010 |
|---|-------------------------|-------------------------|
| Total Borrowings | 2,244 | 2,369 |
| Less: cash and cash equivalents (Note 10) | (611) | (474) |
| Less: Restricted cash | (96) | - |
| Net Debt | 1,537 | 1,895 |
| Total Equity | 8,064 | 7,712 |
| Total capital employed | 9,601 | 9,607 |
| Gearing ratio | 16% | 20% |

There were no changes in Group's approach to capital management during the year.

21. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

(i) Taxation

The Romanian taxation system has just undergone a process of consolidation and harmonisation with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties. In Romania, tax periods remain open for 5 years. The Group's management considers that the tax liabilities included in these financial statements are fairly stated, and they are not aware of any circumstances which may give rise to a potential material liability in this respect.

(ii) Insurance policies

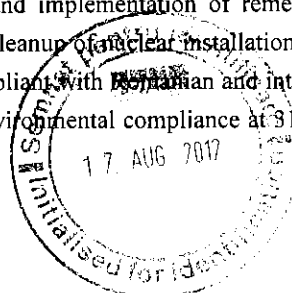
As at 31 December 2011, the Group has signed the following policies:

Operational insurance policies:

- insurance policy for property damage, all risks, including mechanical and electrical damage. Compensation limit is USD 1.500 million (for Cernavodă NPP Units 1 and 2 and FCN Pitesti)
- Liability insurance policy for nuclear damage to third parties. Compensation limit is SDR 150 million (for Cernavodă NPP Units 1 and 2).
- Civil liability insurance policy of directors and administrators (Director's & Officers Liability Insurance). Compensation limit is EUR 10 million.

(iii) Environmental matters

The Group has not recorded any liability as at 31 December 2011 and 31 December 2010 for any anticipated costs, including legal and consulting fees, site studies, the design and implementation of remediation plans, related to environmental matters. The liability for decommissioning and cleanup of nuclear installations has been taken over by ANDR (Note 16). Management considers the plant is fully compliant with Romanian and international environmental standards and estimates that additional costs associated with environmental compliance at 31 December 2010 are not



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significant. Furthermore, the Group is insured against the risk of nuclear accidents, up to an amount of SDR 150 million, as described in section (ii) above.

However, the enforcement of environmental regulation in Romania is evolving and the enforcement posture of government authorities is continuously being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(iv) Legal proceedings

During 2011, the Group was involved in a number of litigations arising in its normal course of activity. The management of the Group regularly analyzes the ongoing litigations and, after consulting with the legal representatives of the Group and external lawyers, decides whether or not to create a provision or to disclose any litigation in the financial statements.

The Group won in June 2012 the litigation with Proconex Universal SRL in which the Group was sued to pay some penalties to Proconex Universal SRL. Proconex Universal SRL was declared bankrupted in June 2012.

In management's opinion, there are no litigations or disputes which may have a significant impact on Group's financial statements and which have not been disclosed in these financial statements.

(v) Commitments

As at 31 December 2011 the Group is committed to incur capital expenditure of 1,092. These commitments are expected to be settled during the following years.

22. SUBSEQUENT EVENTS

EnergioNuclear

In February 2012, the EnergioNuclear's share capital increased by RON 21 million up to RON 123 million. The EnergioNuclear's shareholders transferred cash in exchange of shares in the same proportion with their holdings as at 31 December 2011. The Company transferred RON 18 million.

Hidroelectricita SA

The Bucharest Tribunal admitted on 20 June 2012 the opening of insolvency procedure for Hidroelectricita SA, from which the Company had to collect an amount of RON 35 million as at 31 December 2011 (see Note 9). The Romanian state-owned company, Hidroelectricita SA, decided to file for the insolvency mainly due to a long-drawn drought.

Initial public offering

According to GD. 39/18 January 2012, the Romanian government approved the privatization of the Company by an increase of the share capital by 11.077%. Fondul Proprietatea has a preferential subscription rights for 1.077%. The difference of 10% will be issued as an initial public offering.

Dina Dumitru
General Manager



Elena Negulici
Economic Director