

SN Nuclearelectrica SA

**Financial Statements
as at and for the year ended
31 December 2010**

**Prepared in accordance with
International Financial Reporting Standards**

SN Nuclearelectrica SA
Statement of Financial Position as at 31 December 2010
(All amounts are in million RON, unless stated otherwise)

	Note	31 December 2010	31 December 2009 Restated*	1 January 2009 Restated*
Assets				
Non-current assets				
Property, plant and equipment (PP&E)	4	7,720	8,194	8,161
PP&E held for future investment in associate	4	1,540	-	-
Intangible assets	5	65	66	38
Investment in associate	6	45	10	3
Total non-current assets		9,370	8,270	8,202
Current assets				
Inventories	7	477	1,402	1,087
Trade and other receivables	8	394	217	149
Cash and cash equivalents	9	474	495	394
Total current assets		1,345	2,114	1,630
Total assets		10,715	10,384	9,832
Shareholders' equity and liabilities				
Shareholders' equity				
Share capital	10	2,732	2,732	2,732
Additional paid in capital	10	1,364	1,075	803
Revaluation reserve		1,474	1,484	1,562
Retained earnings		2,142	2,128	1,852
Total shareholders' equity		7,712	7,419	6,949
Non-current liabilities				
Long term borrowings	11	2,194	2,217	2,144
Deferred income		217	225	233
Deferred tax liability	13	167	171	83
Provisions	14	26	32	21
Total non-current liabilities		2,604	2,645	2,481
Current liabilities				
Accounts payable and other liabilities	12	224	156	204
Current portion of long term borrowings	11	175	164	198
Total current liabilities		399	320	402
Total liabilities		3,003	2,965	2,883
Total shareholder's equity and liabilities		10,715	10,384	9,832

* See note 2 f).

The financial statements on pages 1 to 31 were authorized for issue by the management on 17 October 2011 and were signed on its behalf by:

Pompliu Budulan
General Manager

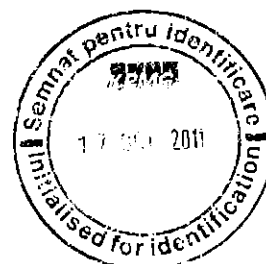
Elena Negulici
Financial Director



SN Nuclearelectrica SA
Income Statement for the Year Ended 31 December 2010
(All amounts are in million RON, unless stated otherwise)

	Note	2010	2009 Restated*
Revenues			
Sales of electricity generated by the Company		1,433	1,455
Revenues from traded electricity		82	72
Other income		39	85
Total revenues		1,554	1,612
Operating expenses			
Depreciation and amortisation		(381)	(367)
Personnel expenses		(261)	(251)
Cost of traded electricity and other goods sold		(63)	(84)
Repairs and maintenance		(91)	(114)
Electricity transmission expenses		(81)	(22)
Spare parts		(29)	(65)
Cost of uranium fuel		(118)	(119)
Impairment (charge) / reversal		-	274
Other operating expenses	15	(346)	(315)
Total operating expenses		(1,370)	(1,063)
Operating profit		184	549
Finance costs	16	(434)	(356)
Finance income	17	262	77
Financial result		(172)	(279)
Share of profit of equity-accounted investees		(4)	-
Profit before income tax		8	270
Income tax expense	13	(4)	6
Profit for the year		4	276

* See note 2 (i).



SN Nuclearelectrica SA
Statement of Comprehensive Income for the Year Ended 31 December 2010
(All amounts are in million RON, unless stated otherwise)

	Note	2010	2009 Restated*
Profit for the period		4	276
Other comprehensive income			
Deferred tax on revaluation reserve		-	(108)
Increase in revaluation reserve		-	30
Other comprehensive loss for the period, net of tax			(78)
Total other comprehensive income for the year		4	198

* See note 2 f).

The financial statements on pages 1 to 31 were authorized for issue by the management on 17 October 2011 and were signed on its behalf by:

Ponpila Budulan
General Manager

Elena Negulici
Financial Director



Nuclearelectrica SA
Statement of Changes in Equity for the Year Ended 31 December
(All amounts are in million RON, unless stated otherwise)

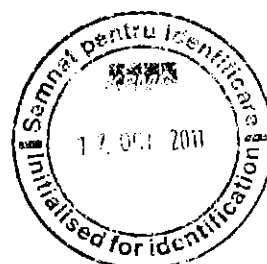
	Note	Share Capital	Additional paid in capital	Revaluation reserve	Retained earnings	Total
Balance at 1 January 2009		2,423	803	1,562	2,190	6,978
Prior period correction (inventory)	2 f)	-	-	-	(29)	(29)
Prior period correction (share capital restatement)	2 f)	309	-	-	(309)	-
Restated balance at 1 January 2009		<u>2,732</u>	<u>803</u>	<u>1,562</u>	<u>1,852</u>	<u>6,949</u>
Comprehensive income for the period						
Profit for the period		-	-	-	276	276
Other comprehensive income/(loss)						
Deferred tax liability on revaluation reserve		-	-	(108)	-	(108)
Increase in revaluation reserve		-	-	30	-	30
Total other comprehensive income/(loss)		-	-	(78)	-	(78)
Total comprehensive income/(loss) for the period		-	-	(78)	276	198
Advances to share capital		-	272	-	-	272
Restated balance as at 31 December 2009		<u>2,732</u>	<u>1,075</u>	<u>1,484</u>	<u>2,128</u>	<u>7,419</u>
Comprehensive income for the period						
Profit for the period		-	-	-	4	4
Other comprehensive income/(loss)		-	-	-	-	-
Total comprehensive income for the period		-	-	-	4	4
Advances to share capital	10	-	289	-	-	289
Realized revaluation reserve		-	-	(10)	10	-
Balance as at 31 December 2010		<u>2,732</u>	<u>1,364</u>	<u>1,474</u>	<u>2,142</u>	<u>7,712</u>



Nuclearelectrica SA
Statement of Cash Flows for the Year Ended 31 December
(All amounts are in million RON, unless stated otherwise)

	2010	2009 Restated*
Cash flows from operating activities		
Profit before income tax	8	270
Adjustments for		
Depreciation and amortization	381	367
Provision for pension	4	1
Provision for litigation	-	10
Impairment reversal	-	(274)
Loss on sale of property, plant and equipment	(1)	(2)
Interest expense	45	87
Interest income	(27)	(51)
Unrealized foreign exchange effect	128	221
	<u>538</u>	<u>629</u>
Changes in:		
Increase in accounts receivables	(177)	(62)
Decrease/(increase) in inventories	13	(315)
Increase/(decrease) in accounts payable and accrued expenses	74	(25)
	<u>448</u>	<u>227</u>
Cash generated from operating activities		
Income tax paid	(13)	-
Interest received	28	51
Interest paid	(45)	(100)
	<u>418</u>	<u>178</u>
Net cash from operating activities		
Cash flows used in investing activities		
Purchase of property, plant and equipment and intangible assets	(197)	(151)
Investment in EnergoNuclear (associate)	(39)	-
Proceeds from the sale of property	22	-
Purchases of assets held for contribution to an associate	(340)	-
	<u>(554)</u>	<u>(151)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Increase in advances to share capital	289	272
Repayments of borrowings	(174)	(198)
	<u>115</u>	<u>74</u>
Net cash from financing activities		
Net (decrease)/increase in cash and cash equivalents	<u>(21)</u>	<u>101</u>
Cash and cash equivalents as at 1 January (see Note 9)	<u>495</u>	<u>394</u>
Cash and cash equivalents as at 31 December (see Note 9)	<u>474</u>	<u>495</u>

* See note 2 f).



1. REPORTING ENTITY

Societatea Națională Nuclearelectrică SA ("the Company") is a company domiciled in Romania. The Company's head office is located in Bucharest, 65 Polonă Street. The financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and the Company's interest in an associate. 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).

In accordance with the Electricity Law 13/2007, the electricity sector is regulated by the Romanian Energy Regulatory Authority (ANRE), an autonomous public institution.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements were authorised for issue by the Board of directors on 17 October 2011.

b) Basis of measurement

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

c) Functional and presentation currency

These financial statements are presented in Romanian Lei ("RON"), which is the Company's functional currency. All financial information presented in RON has been rounded to the nearest million.

d) Use of estimates and judgements

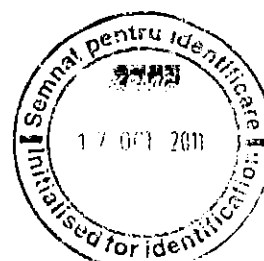
The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses (assumptions on determination of fair value of 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) Estimates and assumptions

Income taxes

Significant judgment is required in determining the overall provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



Employee benefits provision

In calculating the present value of its future obligations towards employees upon their retirement, the Company has made assumptions primarily relating to the staff turnover and evolution of average salary (see Note 14).

f) Correction of prior period financial statements

The Company identified the following corrections in the financial statements as at and for the year ended 31 December 2009:

- Retrospective review of inflation accounting for share capital in accordance to *IAS 29 Financial Reporting in Hyperinflationary Economies* that was applied by the Company until 31 December 2003, when Romania ceased to be a hyperinflationary economy. The impact of this review was an increase of share capital by 309 by reducing the retained earnings.
- No deferred tax liability was recognized in the past for inventories in accordance with *IAS 12 Income Taxes*. As at 31 December 2008 a deferred tax liability of 25 was recognized against retained earnings. The balance of deferred tax liability as reported as at 31 December 2009 increased by 17 following the correction of 25 from 2008 and the reversal of deferred tax liability of 8 determined by inventory consumption.
- The restatement of inventories recorded in the past in accordance with *IAS 29* was not reversed on inventory expense as the inventories were consumed. The impact is an increase of spare parts expense for 2008 with 4 and for 2009 with 17 and an increase of other operating expenses for 2009 with 3.

The corrections refer to periods prior to 31 December 2009. In accordance with *IAS 8 Accounting Policies, Changes in Accounting, Estimates and Errors* and considering that fact that the errors occurred before the earliest period presented, the opening balances of assets, liabilities and equity were restated for the earliest prior period presented. The following table summarises the adjustments made to the statement of financial position of prior years:

	Share Capital	Inventories	Deferred tax liability	Retained earnings
Balance as reported at 1 January 2009	(2,423)	1,091	(58)	(2,190)
Effect of retrospective review of inflation accounting for share capital on 1 January 2009	(309)	-	-	309
Effect of corrections on inventories on 1 January 2009	-	(4)	(25)	29
Restated balance at 1 January 2009	(2,732)	1,087	(83)	(1,852)
Balance as reported at 31 December 2009	(2,423)	1,426	(154)	(2,478)
Effect of retrospective review of inflation accounting for share capital on 1 January 2009	(309)	-	-	309
Effect of corrections on inventories on 1 January 2009	-	(4)	(25)	29
Effect on profit and loss of corrections on inventories for the year ended 31 December 2009	-	(20)	8	12
Restated balance as at 31 December 2009	(2,732)	1,402	(171)	(2,128)



The effect on the statement of comprehensive income was as follows:

	2009
Spare parts	(17)
Other Operating expenses	(3)
Income tax credit	8
Effect on profit and loss	(12)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Investments in associates

Associates are those entities in which the Company 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 statements include the Company's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence until the date that significant influence ceases.

When the Company'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 Company has an obligation or has made payments on behalf of the investee.

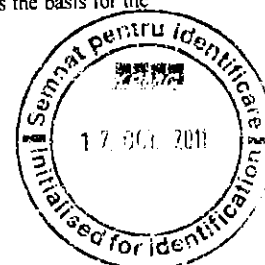
b) Foreign currency transactions

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 2010 and 31 December 2009 are as follows:

Currency	31 December 2010	31 December 2009
1 EUR	4.2848	4.2282
1 USD	3.2045	2.9361
1 CAD	3.2102	2.7979

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 Company 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)

Cost or revalued amount

Property, plant and equipment are carried at cost or revalued amount, based on valuations performed by external independent valuers by using the market values and/or depreciated replacement cost basis, less accumulated depreciation and impairment loss if applicable. Cost/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.
- The other assets are recorded at revalued amount based on valuations performed by external independent valuers (latest at 31 December 2002).
- 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).

If an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity under the heading of revaluation reserve. However, to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, the increase is recognized in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is debited directly to the revaluation reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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 by each unit. This allocation represents the cost basis for the assets included within assets in course of construction.

Constructions that initially had been classified as PP&E 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.

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:

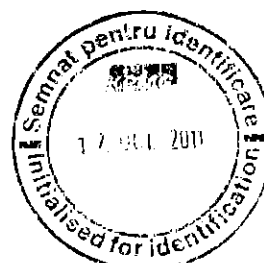
Number of years

Nuclear power plants

30

Machinery, equipment and other assets

3 - 45



The assets' residual values 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. When revalued assets are sold or disposed, the amounts included in revaluation reserves are transferred to retained earnings.

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

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

f) Intangible assets

The intangible assets of the Company 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 intangibles in progress and customized software, which are amortized on a straight-line basis mainly on 5 years.

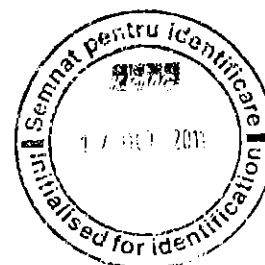
g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation/ amortisation and are tested annually for impairment. Assets that are subject to depreciation/ amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the circumstances which led to the impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units), which is at the level of each nuclear reactor unit. Non-financial assets that were impaired are reviewed for possible reversal of the impairment at each reporting date.

h) Inventories

Inventories consist of consumables, spare parts, buffer stock, heavy water, 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



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Notes to the Financial Statements as at 31 December 2010

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

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) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company 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.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the 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.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other operating income' in profit or loss.

j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, in current accounts and bank deposits with maturities of 3 months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

k) Shareholders' equity*Share capital*

The Company was formed by separation from the former National Electricity Company. 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.c) plus subsequent increases. Amounts included in statutory share capital which resulted from property, plant and equipment revaluations were excluded for the purposes of these financial statements.

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.

Additional paid in capital

Additional paid in capital represents contributions from the State Budget towards the Company for construction of nuclear Unit 2, for investments of the social program and for acquisition of heavy water from Romanian Authority for Nuclear Activities ("RAAN"). This heavy water will be used by the Company as a contribution in kind to Energonuclear for units 3 and 4. According to Romanian legislation, these advances are being included in the statutory share capital after the registration at the Trade Registry was made.



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Notes to the Financial Statements as at 31 December 2010

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

Certain amounts, representing contributions provided by the State for the construction of social assets, are subsequently deducted from share capital when the corresponding social assets are completed and transferred, free of charge, to the local authorities.

l) Dividends

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

m) Trade and other payables

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

n) 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

o) 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 Company 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. Grants that compensate the Company for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

Government grants resulting from the cancellation of penalties for late payments to the Ministry of Public Finance are taken to income.

p) 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.

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.



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Notes to the Financial Statements as at 31 December 2010

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

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.

q) Employee benefits

Long-term employee benefits

The Company's net obligation in respect of long-term employee benefits 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. Under this method the cost of the retirement lump sum payments is charged to profit or loss so as to spread it over the service lives of employees. The obligation is assessed annually by independent qualified actuaries. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

The long-term employee benefits are represented mainly by:

- retirement bonuses depending on the length of service within the Company at the retirement date.
- jubilee bonuses of 2 or 3 monthly gross basis salaries depending on the employment period within the Company.

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 Company 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.

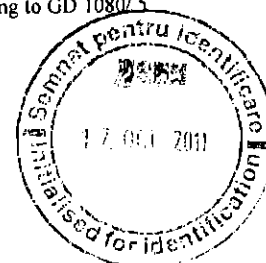
The Company, in the normal course of business, makes payments to the pension funds on behalf of its employees. All employees of the Company are members of the Romanian State pension plan.

r) Provisions

A provision is recognised if, as a result of a past event, the Company 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.

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 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 fact that this obligation is assumed by the Nuclear Agency and Radioactive Waste (ANDR). According to GD 1080/5



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Notes to the Financial Statements as at 31 December 2010

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

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 14).

s) 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 Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the Company and specific criteria have been met for each of the Company'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 Company 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).

t) 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.

u) New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for *IAS 24 Related party disclosure*, which becomes mandatory for the 2011 financial statements. The Company does not plan to adopt this standard early. *Revised IAS 24 Related party disclosure effective for annual period beginning on or after 1 January 2011*

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.



4. PROPERTY, PLANT AND EQUIPMENT

	Land	Nuclear power plants	Machinery, equipment and other assets	Assets in course of construction	PP&E held for future investment in associate	TOTAL
Cost						
Balance as at 1 January 2009	41	7,485	1,071	643	-	9,240
Additions	-	-	16	133	-	149
Transfers	-	19	73	(92)	-	-
Disposals	-	-	-	(66)	-	(66)
Revaluation	-	(89)	119	-	-	30
Balance as at 31 December 2009	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)
Revaluation	-	-	-	-	-	-
Balance as at 31 December 2010	25	7,427	1,345	440	1,540	10,777
Accumulated Depreciation						
Balance as at 1 January 2009	-	482	186	-	-	668
Depreciation charge	-	294	60	-	-	354
Balance as at 31 December 2009	-	776	246	-	-	1,022
Depreciation charge	-	296	65	-	-	361
Accumulated Depreciation of Disposals	-	-	(3)	-	-	(3)
Balance as at 31 December 2010	-	1,072	308	-	-	1,380
Impairment						
Balance as at 1 January 2009	-	-	-	411	-	411
Additions	-	-	-	-	-	-
Reversal of impairment	-	-	-	(274)	-	(274)
Balance as at 31 December 2009	-	-	-	137	-	137
Additions	-	-	-	-	-	-
Reversal of impairment	-	-	-	-	-	-
Balance as at 31 December 2010	-	-	-	137	-	137
Carrying amounts						
At 1 January 2009	41	7,003	885	232	-	8,161
At 31 December 2009	41	6,639	1,033	481	-	8,194
At 31 December 2010	25	6,355	1,037	303	1,540	9,260



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Machinery, equipment and other assets comprise mainly heavy water used by the nuclear power plants 1 and 2, with a net book value as at 31 December 2010 of 504.

Unit 5 remains fully impaired because at present there are no plans to resume construction on this unit. As at 31 December 2010, the impairment of 137 refers to Unit 5.

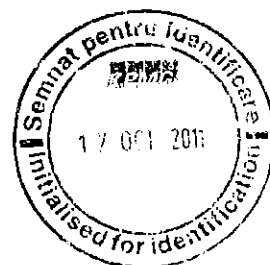
Land, buildings and Units 1 and 2 were revalued as at 31 December 2009, based on the valuation report prepared by the independent valuers (see Note 3 d).

Units 3 and 4 and the related heavy water acquired for these two units are classified as PP&E held for investment in Energonuclear (associate). As at 31 December 2010, Units 3 and 4 are in amount of 288, while heavy water is in amount of 1,252. Heavy water is purchased from RAAN since 2006 and will reach the 1100 tonnes of heavy water in 2012.

According to the investors' agreement referring to Energonuclear, approved by the Government Decision no. 1565/November 2008, the Company will sell certain assets (eg. Units 3 and 4 and the related heavy water acquired for these two units) to Energonuclear (associate) 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.

Assets pledged as security

On December 31, 2010 the Company has not pledged or mortgaged assets.



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Notes to the Financial Statements as at 31 December 2010

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

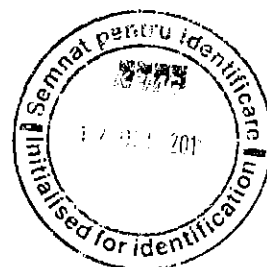
5. INTANGIBLE ASSETS

	Licences and acquired software	Power plant software	TOTAL
Cost			
Balance as at 1 January 2009	33	35	68
Additions	17	24	41
Disposals	-	-	-
Balance as at 31 December 2009	50	59	109
Additions	-	18	18
Disposals	1	1	2
Balance as at 31 December 2010	51	78	129
Accumulated amortisation			
Balance as at 1 January 2009	16	14	30
Amortisation for the year	8	5	13
Accumulated amortisation of disposals	-	-	-
Balance as at 31 December 2009	24	19	43
Amortisation for the year	10	10	20
Accumulated amortisation of disposals	1	-	1
Balance as at 31 December 2010	35	29	64
Carrying amounts			
At 1 January 2009	17	21	38
At 31 December 2009	26	40	66
At 31 December 2010	16	49	65

6. INVESTMENT IN ASSOCIATE

	31 December 2010	31 December 2009
Investment in Energonuclear SA (associate)	45	10
TOTAL	45	10

As at 31 December 2010, the Company holds shares in amount of 45 representing 60.15% of the share capital of Energonuclear SA (51% as at 31 December 2009). Energonuclear has as main activity the construction, commissioning and operation of nuclear units 3 and 4 at Cernavodă. 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.



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Notes to the Financial Statements as at 31 December 2010

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

7. INVENTORIES

As at 31 December 2010 and 31 December 2009 inventories are as follows:

	31 December 2010	31 December 2009 Restated*
Heavy water	73	992
Spare parts	239	265
Materials and supplies	44	47
Nuclear fuel	72	70
Uranium	32	27
Other inventories	17	1
TOTAL	477	1,402

* See Note 2 f).

8. TRADE AND OTHER RECEIVABLES

As at 31 December 2010 and 31 December 2009 trade and other receivables are as follows:

	31 December 2010	31 December 2009
Trade receivables	324	169
Trade receivables allowance	(1)	(1)
VAT recoverable	8	5
Advances to suppliers	2	5
Prepayments and accrued income	7	5
Other receivables	54	34
Total	394	217

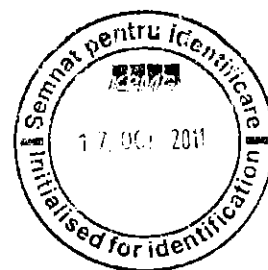
As at 31 December 2010, the biggest clients outstanding are: Hidroelectrica SA – 178, Enel Energie SA – 35 and CEZ Vanzare SA – 23.

As at 31 December 2010, other receivables comprise mainly income tax receivable in amount of 34 RON.

9. CASH AND CASH EQUIVALENTS

As at 31 December 2010 and 31 December 2009 cash and cash equivalents are as follows:

	31 December 2010	31 December 2009
Cash at bank in RON	387	457
Cash at bank in foreign currencies	87	36
Restricted cash	-	2
Total	474	495



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Notes to the Financial Statements as at 31 December 2010
(All amounts are in million RON, unless stated otherwise)

10. SHARE CAPITAL

The statutory share capital is RON 2,537 as at 31 December 2010, fully paid (31 December 2009: RON 2,537) which consists of 253,682,361 (31 December 2009: 253,682,361) fully paid-in ordinary shares each having a nominal value of RON 10. All the shares have equal voting rights.

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

	<u>No. of shares</u>	<u>% of shareholding</u>
The Romanian State through the Ministry of Economy and Finance	229,006,139	90.27
Fondul Proprietatea SA	24,676,222	9.73
TOTAL	253,682,361	100

Additional paid in capital

Additional paid in capital of RON 1,364 as at 31 December 2010 (31 December 2009: RON 1,075) represents contributions to State Budget towards the Company for construction of nuclear Unit 2, for investments in the social program and for acquisition of heavy water from Romanian Authority for Nuclear Activities ("RAAN").

11. LONG TERM BORROWINGS

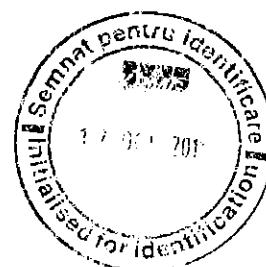
As at 31 December 2010 and 31 December 2009 long term loans are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
Loans from foreign banks	2,161	2,123
Loans from domestic banks	208	258
	<u>2,369</u>	<u>2,381</u>
Less current portion of long term borrowings	(175)	(164)
Total long term borrowings	2,194	2,217

Effective interest rate

All loans carry a variable rate of interest. The effective rate is analysed as follows:

	2010	2009
	(%)	(%)
Loans in foreign currencies from foreign banks	1	4
Loans in lei from domestic banks	7	12



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Notes to the Financial Statements as at 31 December 2010

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

Long-term debt, shown gross of an amount of RON 116 (31 December 2009: RON 139) representing up-front costs of obtaining the loans, is repayable as follows:

	31 December 2010	31 December 2009
1 to 2 years	175	164
2 to 3 years	218	164
3 to 4 years	218	207
4 to 5 years	204	207
more than 5 years	1,495	1,614
Total	2,310	2,356

As at 31 December 2010 and 31 December 2009 long term loans from credit institutions are as follows:

	31 December 2010	31 December 2009
Societe Generale - ALSTOM BC (a)	30	34
Societe Generale - ANSALDO BC (b)	379	406
Societe Generale - AECL BC (c)	807	764
Societe Generale - NEXANS BC (d)	37	42
Societe Generale - GENERAL ELECTRIC (e)	66	69
EURATOM - (f)	958	945
BCR - (g)	208	260
Total long term loans from credit institutions	2,485	2,520
Less: Current amount of the long term loans	(175)	(164)
Less: Upfront cost of obtaining the loan	(116)	(139)
Total long term loans, net of current amounts	2,194	2,217

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. As at 31 December 2010 the outstanding amount is of EUR 6.9. 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 2010 the outstanding amount is 30.

b) Loan from Societe Generale - ANSALDO

The loan was granted by Societe Generale to the Company in 2002. As at 31 December 2010 the total amount outstanding is EUR 88.4. 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 2010 the outstanding amount is 379.



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Notes to the Financial Statements as at 31 December 2010

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

c) Loan from Societe Generale - AECL

The loan was granted by Societe Generale to the Company in 2002. As at 31 December 2010 the outstanding amount is of CAD 251.3. 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 2010 the outstanding amount is 807.

d) Loan from Societe Generale - NEXANS

The loan was granted by Societe Generale to the Company in 2002. As at 31 December 2010 the outstanding amount is EUR 8.7. 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 2010 the outstanding amount is 37.

e) Loan from Societe Generale - GENERAL ELECTRIC

The loan was granted by Societe Generale to the Company in 2003. As at 31 December 2010 the outstanding amount is USD 20.7. 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 2010 the outstanding amount is 66.

f) Loan from EURATOM

The loan was granted by Euratom to the Company in 2004. As at 31 December 2010 the outstanding amount is EUR 223.5, having three parts: (i) first part with an outstanding amount of EUR 100; (ii) the second part with an outstanding amount of EUR 90 and (iii) the third part with an outstanding amount of EUR 33.5. The first part is to be reimbursed between 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 2010 the outstanding amount is 958.

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.

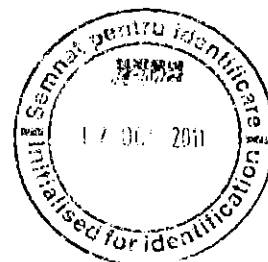
The financial covenants requested for EURATOM loan are met by the Company as at 31 December 2010.

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). As at 31 December 2010 the outstanding amount is 208. 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.



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Notes to the Financial Statements as at 31 December 2010

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

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

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

As at 31 December 2010 and 31 December 2009 trade and other liabilities are as follows:

	31 December 2010	31 December 2009
Fixed assets suppliers	41	21
Trade payables	106	69
Interest payable	6	7
Advances received from customers	42	29
Payables to employees	7	12
Payables to State	22	18
Total	224	156

As at 31 December 2010, the main outstanding suppliers were: CN Transelectrica SA – 25, RAAN – 21 and UTI System Bucuresti – 9.

13. INCOME TAXES

As at 31 December 2010 and 31 December 2009 the income tax expense consists of the following:

	2010	2009 Restated *
Deferred tax credit / (charge)	4	20
Current tax	(8)	(14)
Total	(4)	6

* See Note 2 f).

Deferred tax assets and liabilities are measured at the effective tax rate of 16% as at 31 December 2010 (16% as at 31 December 2009), which is the currently enacted tax rate.



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

Deferred tax balances consist of the following:

	Assets		Liabilities		Net	
	31 Dec 2010	31 Dec 2009 Restated*	31 Dec 2010	31 Dec 2009 Restated*	31 Dec 2010	31 Dec 2009 Restated*
PP&E	-	-	53	49	53	49
Inventories	-	-	14	17	14	17
Revaluation reserve	-	-	104	108	104	108
Provisions	(4)	(3)	-	-	(4)	(3)
Net tax	(4)	(3)	171	174	167	171
(assets)/liabilities						

The movements in deferred tax liability during 2009 and 2010 are as follows:

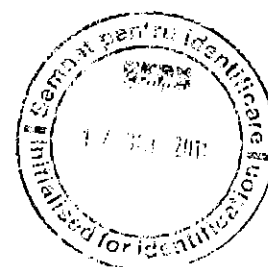
Elements	Balance 1 January 2009 Restated*	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2009 Restated*	Recognised in profit or loss	Balance 31 December 2010
PP&E	61	(12)	-	49	4	53
Inventories	25	(8)	-	17	(3)	14
Revaluation reserve	-	-	108	108	(4)	104
Provisions	(3)	-	-	(3)	(1)	(4)
Net tax	83	(20)	108	171	(4)	167
(assets)/liabilities						

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:

	2010	2009 Restated*
Profit before income tax	8	270
Income tax at statutory rate of 16%	1	43
Effect of non-deductible expenses	6	5
Effect of tax exempt income	(2)	(43)
Effect of other differences	(1)	(11)
Income tax expense	4	(6)

* See Note 2 f).



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Notes to the Financial Statements as at 31 December 2010

*(All amounts are in million RON, unless stated otherwise)***14. PROVISIONS**

	31 December 2010	31 December 2009
Provision for employee benefits	26	22
Provision for litigation	-	10
Total	26	32

Employee benefits provision

This provision results from the Company's obligation to pay the following benefits:

- Retirement bonuses depending on the length of service within the Company at the retirement date;
- Jubilee bonuses of 2 or 3 monthly gross basis salaries depending on the employment period within the Company.

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

- the discount rate used for the year ended 31 December 2010 for RON amounts was 9.98% (31 December 2009: 9.51 %) 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;
- the future salary increases were assumed to be at Consumer Price Index. The inflation rate was estimated to be 4% in 2011, 3.5% p.a. for the period 2012-2019 followed by a decreasing pattern in later years.

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 Nuclear Agency and Radioactive Waste ("ANDR"):

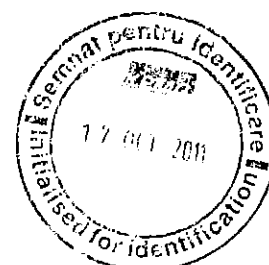
- Contributions for the decommissioning of each nuclear unit amounting to 0.6 EUR/MWh of electricity produced.
- Contributions for the permanent storage of radioactive waste of 1.4 EUR/MWh of electricity produced.

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.

15. OTHER OPERATING EXPENSES

	2010	2009 Restated*
Third party services	126	103
Expenses with ANDR (see Note 14)	90	96
Energy and water	33	33
Fuels, lubricants and other consumables	40	35
Insurance	10	11
Provisions for litigation	(10)	10
Transportation and telecommunication	8	7
Other operating expenses	49	20
Total	346	315

* See Note 2 f).



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Notes to the Financial Statements as at 31 December 2010

*(All amounts are in million RON, unless stated otherwise)***16. FINANCE COSTS**

	2010	2009
Foreign exchange losses	362	239
Bank interest expense	45	87
Interest on liabilities to the State	27	30
TOTAL	434	356

17. FINANCE INCOME

	2010	2009
Interest income	27	51
Foreign exchange gains	227	18
Other financial revenues	8	8
Total	262	77

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

The related parties presented below are owned in majority by the Romanian State, therefore were considered entities under common control (Electrica SA, CN Transselectrica SA, Electrica Distributie Transilvania Sud SA, Electrica Furnizare Transilvania Sud SA, Electrica Distributie Transilvania Nord SA, Electrica Furnizare Transilvania Nord SA, Electrica Distributie Muntenia Nord SA, Electrica Furnizare Muntenia Nord SA, Hidroelectrica SA, CE Rovinari SA, CE Craiova SA, CE Turceni SA, Electrocentrale Deva SA, Electrocentrale Galati SA, Electrocentrale Oradea SA, Administratia Canalelor Navigabile SA, Siton Magurele, Simtex Bucuresti, Apele Romane Constanta, SCM Pitesti, ISCIR Bucuresti, ISCIR Constanta, RAAN – SCN Pitesti, RAAN – Romag, RAAN – Siton, Compania Nationala a Uraniului SA).

Transactions with related parties of the Company 2010 and 2009 consist of the following:

	2010	2009
Sales of electricity	733	673
Purchases of electricity, heavy water, goods and services	652	693
Interest to Ministry of Public Finance	27	30

ii) Balances with state – owned companies

	31 December 2010	31 December 2009
Trade receivables	218	88
Trade payables	43	9
Deferred income	217	225
Loans from the Ministry of Public Finance	208	260



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Notes to the Financial Statements as at 31 December 2010

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

iii) 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.

iv) Key management salaries

Salaries paid to key management for their services in full or part time executive management positions is 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.

	2010	2009
Management salaries	0.96	1.07

19. FINANCIAL RISK MANAGEMENT**(a) Financial risk factors**

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

The Company 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 Company in order to make sure that the opportunities and threats are matched efficiently. The financial department prepares weekly cash flow forecasts which help the management in the process of taking decision.

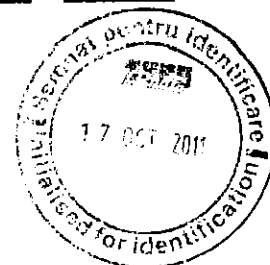
(a) Foreign exchange risk

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

The Company's functional currency is RON. The Company is exposed to foreign currency risk on purchases and borrowings that are denominated in a currency other than the functional currency of the Company. 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 Company's exposure to foreign currency risk expressed in thousand RON, was as follows:

	Carrying amount	RON	EUR	USD	CAD
31 December 2010					
Monetary assets	-	-	-	-	-
Monetary liabilities					
Suppliers of fixed assets	(41)	(32)	(1)	(4)	(4)
Borrowings	(2,485)	(209)	(1,404)	(66)	(806)
Gross exposure in the statement of financial position	2,526	(241)	(1,405)	(70)	(810)



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Notes to the Financial Statements as at 31 December 2010

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

	Carrying amount	RON	EUR	USD	CAD
31 December 2009					
Monetary assets	-	-	-	-	-
Monetary liabilities					
Suppliers of fixed assets	(21)	(12)	(1)	(5)	(3)
Borrowings	(2,520)	(261)	(1,426)	(69)	(764)
Gross exposure in the statement of financial position	2,541	(273)	(1,427)	(74)	(767)

The following significant exchange rates were used:

	Average rate		Reporting date spot rate	
	2010	2009	31 December 2010	31 December 2009
RON/ EURO	4.2099	4.2376	4.2848	4.2282
RON/ USD	3.1779	3.0469	3.2045	2.9361
RON/ CAD	3.0859	2.6738	3.2102	2.7979

Sensitivity analysis

A 10 percent strengthening of the RON against the following currencies at 31 December 2010 and 31 December 2009 would have increased profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit 2010	Profit 2009
EUR	141	143
USD	7	7
CAD	81	76
Total	229	226

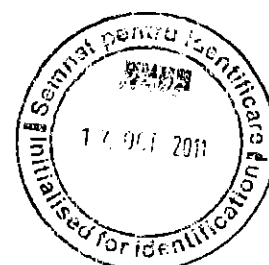
A 10 percent weakening of the RON against the following currencies at 31 December 2010 and 31 December 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

	Loss 2010	Loss 2009
EUR	(141)	(143)
USD	(7)	(7)
CAD	(81)	(76)
Total	(229)	(226)

(b) Interest rate risk

The Company's operating cash flows are impacted by the changes in interest rates, mainly due to the foreign long term borrowings the Company contracted.

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



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Notes to the Financial Statements as at 31 December 2010

*(All amounts are in million RON, unless stated otherwise)***Sensitivity analysis of interest rate**

A change of 100 basis points in interest rates at the year end would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Loss 31 December 2010	Loss 31 December 2009
RON	(2)	(2)
EUR	(14)	(14)
USD	(1)	(1)
CAD	(8)	(8)
	(25)	(25)

(c) Credit risk

Financial assets, which potentially subject this Company to credit risk, consist principally of trade receivables and cash and cash equivalents. The Company has policies in place to ensure that sales of services 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 Company has significant concentrations of credit risk: about 50% of the Company's receivables are due from Hidroelectrica (see Note 8).

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:

	31 December 2010	31 December 2009
Financial assets		
Trade receivables	323	168
Cash and cash equivalents	474	495
Other receivables	71	49
	868	712

The ageing of trade receivables at the reporting date is:

	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Between 0 – 30 days	165	-	115	-
Between 30 – 90 days	42	-	14	-
Between 90 – 180 days	54	-	17	-
Between 180 – 270 days	44	-	10	-
Between 270 – 365 days	1	-	11	-
More than one year	18	(1)	2	(1)
Total	324	(1)	169	(1)

There was no movement in the allowance for impairment in respect of trade receivables during the year 2010.



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Notes to the Financial Statements as at 31 December 2010

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

(d) Liquidity risk

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 Company aims to maintain flexibility in funding by obtaining financing from private banks and the majority shareholder's support.

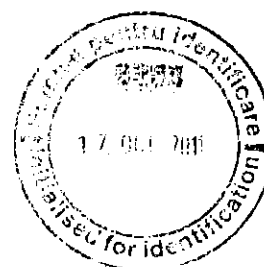
The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their 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
As at 31 December 2010						
Borrowings	2,369	2,711	216	211	716	1,568
Trade Payables	147	147	147	-	-	-
Other payables	77	77	77	-	-	-
	<u>2,593</u>	<u>2,935</u>	<u>440</u>	<u>211</u>	<u>716</u>	<u>1,568</u>
	Carrying amount	Contractual amount	12 months or less	Between 1-2 years	Between 2-5 years	Over 5 years
As at 31 December 2009						
Borrowings	2,381	2,879	223	217	699	1,740
Trade Payables	90	90	90	-	-	-
Other payables	66	66	66	-	-	-
	<u>2,537</u>	<u>3,035</u>	<u>379</u>	<u>217</u>	<u>699</u>	<u>1,740</u>

(b) Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.



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Notes to the Financial Statements as at 31 December 2010

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

During 2009 and 2010 the Company's strategy was to maintain the gearing ratio within a 20% to 40% corridor. The gearing ratios at 31 December 2010 and 2009 were as follows:

	31 December 2010	31 December 2009 *Restated
Total Borrowings	2,369	2,381
Less: cash and cash equivalents (Note 9)	(474)	(495)
Net Debt	1,895	1,886
Total Equity	7,712	7,419
Total capital employed	9,607	9,305
Gearing ratio	20%	20%

* See note 2 f).

The gearing ratio remained unchanged as compared to 2009.

20. 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 Company'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

At the end of the year 2010, the Company 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 Company has not recorded any liability at 31 December 2010 and 31 December 2009 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 14). Management considers the plant is fully compliant with Romanian and international environmental



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standards and estimates that additional costs associated with environmental compliance at 31 December 2010 are not significant. Furthermore, the Company 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 Company 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 2010, the Company was involved in a number of litigations arising in its normal course of activity. The management of the Company regularly analyzes the ongoing litigations and, after consulting with the legal representatives of the Company and external lawyers, decides whether to create a provision or to disclose any litigation in the financial statements.

As at 31 December 2010 the Company is involved as defendant in litigation with Universal Proconex SRL. As at 1 November 2007, the Company concluded a contract with Proconex Universal SRL (Contractor) for execution of some workings for the objective "Training centre for youth and children in Cernavodă".

On 26 June 2009, the Contractor sued the Company and requests it to pay 0.03 as penalties per day. Subsequently, on 23 September 2009, Proconex Universal SRL requests an amount of 10.4, representing damages to be paid by the Company for not meeting the contractual obligations. The damages were computed starting 2 June 2008, the date when the Company refused to approve the second phase of the Project.

On the other hand, the Company claims damages in amount of 2.5 RON for delaying the delivering of the workings and opened an insolvency procedure against the defendant Proconex Universal SRL.

Management of the Company estimates that the Company is likely to win both litigations. In management's opinion, there are no litigations or disputes which may have a significant impact on Company's financial statements and which have not been disclosed in these financial statements.

21. SUBSEQUENT EVENTS

As at 31 December 2010, the Company owns 60.15% of the project company EnergoNuclear. On 19 January 2011, RWE Power Romania, Iberdrola Generation S.A.U. and GDF Suez S.A. have expressed their intent to withdraw from the investors' agreement regarding the construction project of units 3 and 4 of Cernavodă NPP and to sell their shares in EnergoNuclear. The Company has expressed its intent to purchase the shares held by the three companies and as such has signed the following cession contracts: no.230/28.02.2011 with RWE Power Romania, no.229/28.02.2011 with Iberdrola Generation S.A.U., and no.231/28.02.2011 with GDF Suez S.A. After purchasing the shares from these three companies the Company owns 84.65% of the project company EnergoNuclear.

