



**Endorsed,
Board of Directors
President
Alexandru Sandulescu**

**Note to underlie the Revenues and Expenses Budget project
of SN Nuclearelectrica SA („SNN”) for the financial year 2015**

- Documentation for item 10 on the agenda of the OGMS/29.04.2015 -

The project for SNN's Revenues and Expenses Budget („REB”) for the year 2015 was prepared in accordance with the provisions under article 49 of the State Budget Law for 2015 (Law no. 186/2014), the provisions under the *Ordinance no. 26/2013 regarding the strengthening of financial discipline for commercial operators in which the state or local administration units are full or majority shareholders or directly or indirectly own a majority share*, the provisions under the *Order of the Ministry of Public Finance no. 2032/2013 regarding the approval of the layout and structure of the revenues and expenses budget, as well as its underlying annexes* and the provisions under the *Order of the Ministry of Public Finances no. 1286/2012 for the approval of the Accounting regulations in compliance with the International Financial Reporting Standards, applicable to commercial entities with securities admitted for trade on regulated market*,

In accordance with art. 6, paragraph (1) of the Ordinance no. 26/2013 the economic operators, trading companies whose shares are traded on a regulated market, submit to central or local government authorities, as appropriate, under whose subordination, coordination or in whose portfolio they are included, for approval, the budget together with the sustaining appendices, within 45 days after coming into force of the annual state budget law.

The approval method of the budget is provided in art. 4 paragraph (1) letter (a) of the Ordinance no. 26/2013; *"The budgets of the economic operators shall be approved: through the Government decision ...". The Government decision drafts shall be endorsed by the Ministry of Labour, Family, Social Protection and Elderly Persons in terms of complying with the salary policy established by the Government when drafting the budgets, and subsequently by the Ministry of Public Finances."*

The budget proposal of SNN for 2015, and the underlying appendices were submitted to the Ministry of Energy, Small and Medium Sized Enterprises and Business Environment, General Division for Privatisation and Administration of the State's Participation in Energy, by letter no. 150.623/13.02.2015.

NOTE: The amounts for 2014 presented in the budget proposal are preliminary and unaudited, being based on the preliminary unaudited data for the year 2014 available at the date of the preparation of the REB proposal and its transmission to the statutory authority as per O.G. no. 26/2013.

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The Budget proposal for 2015 is presented in Annexe 1 to the current note. Annexe 2 presents the detailed economical and financial indicators.

The production and investment programs for 2015 have been included in the REB, taking into consideration the preliminary results for 2014 regarding revenues and expenses.

The main economic and financial indicators provided in the budget proposal for 2015 are presented below.

1. TOTAL REVENUES

The total revenues have been estimated at **1.883.905 thousand lei**, out of which **1.804.639 thousand lei** operating revenues and **79.266 thousand lei** financial revenues.

1. The operating revenues in amount of **1.804.639 thousand lei** include income from the sold production in amount of **1.680.490 thousand lei**, out of which the revenues from the sale of products represents **1.678.613 thousand lei**. The latter include the revenues from the sale of electric and thermal power.

The forecasted production and delivery of energy into the National Power System (NPS) in 2014 is of 10.510 thousand MWh; the estimation was done considering the operation of the units at a capacity factor close to nominal power, a duration of the planned outage at Unit 2 of about 30 days (9 May – 7 June) and unplanned outages at Units 1 and 2 of about 288 days.

The energy quantity which will be sold on the regulated market in 2015 (2.252 thousand MWh), established by ANRE, represents 21% of the estimated produced and delivered energy. The sale price on the regulated market use for underlying the REB for 2015 is 158,63 lei/MWh, established by ANRE (the regulated price does not include the transmission tariff - Tg).

For the competitive market, the estimated revenues were based on the contracts concluded until the drafting of the REB for the energy which will be delivered in 2015, as well as on price hypothesis related to the average price on the Centralized Market for Bilateral Contracts (CMBM) and respectively on the Day Ahead Market (DAM) for the rest of the year, together with the mix of sales on CMBM and DAM.

In conclusion, the preliminary value of the production to be sold in 2015 is **1.676.523 thousand lei**.

The revenues from the sale of thermal power were estimated taking into consideration a quantity of delivered thermal energy of about 61 thousand Gcal, as per the historical local consumption data (Cernavoda). The average price for the thermal energy sold to the population is 30 lei/Gcal, regulated price of ANRE, and the average sale price to other economic operators is 163 lei/Gcal.

Thus, the preliminary value to be obtained from the sale of the thermal power in 2015 is **2.090 thousand lei**.

The revenues from royalties and rents is estimated to amount of **540 thousand lei**; **Other revenues** in amount of **1.337 thousand lei** are represented, mainly, by revenues from the sale of green certificates purchased as per the Law no. 134/18.07.2012 in order to fulfil the regulated obligations for Transelectrica and by the revenues resulted from lodging services in Cernavoda NPP campus.

Revenues from the sale of merchandise in amount of **109.604 thousand lei**, include the value of the energy transmission revenues, which are invoiced to the buyers together with the sale of the energy, calculated at a transmission tariff of 10,32 lei/MWh as per ANRE Order (Tg – local transmission tariff for the Dobrogea region).

Other operating revenues, in amount of **14.545 thousand lei** derive, mainly, from subsidies revenues representing reimbursements of the loans and interest payments done by the Romanian State to banks, on behalf of SNN, for the financing of Unit 1. According with IFRS, these amounts are yearly recognised as revenues, as the non-current assets, financed by these subsidies, are depreciated. The revenues from the assets' sales and other equity operations are the estimation of the revenues obtained from the dismantling of assets approved for write-off, calculated based on the revenues of 2014.

2. Financial revenues, in amount of **79.266 thousand lei**, were estimated based on the forecasted revenues from the exchange rate differences, at the level of the revised 2014 budget, as per the Resolution no. 129/15.09.2014 of the Board of Directors and the interest rates offered by the banks for SNN's deposits in lei and other foreign currencies, considering the current lower levels of the obtained interest rates.

II. TOTAL EXPENSES

The total expenses in amount of **1.840.494 thousand lei** include the operating expenses of **1.746.893 thousand lei** and the financial expenses of **93.602 thousand lei**.

1. The operating expenses in amount of **1.746.893 thousand lei** include the expenses with goods and services, tax expenses, personnel expenses and other operating expenses.

A. Expenses with goods and services in amount of **737.987 thousand lei** include:

A1 – expenses regarding inventories in amount of **442.780 thousand lei** which represents the consumption of raw material and other materials used both for the current maintenance program of the NPPs, as well as the corrective maintenance program which will be performed during the Planned Outage, namely, spare parts, auxiliary materials, other consumables, inventory items and protection equipment, energy consumption, water and gases, expenses with the energy bough from the free market during the duration of the outages, the purchase of green certificates, the tax for introducing the energy in the transport grid which is paid to CN Transelectrica SA - Tg (regional transmission tariff).

A2 – expenses with third parties services in amount of **163.979 thousand lei** which represent services required for SNN's activity (including services required for the current maintenance program with the NPP on power, as well as the corrective maintenance program that will be performed during the Planned Outage of Unit 2 of Cernavoda NPP), expenses regarding rents and insurance premiums (especially the nuclear risk insurance of the NPPs).

A3 – expenses with third parties other services in amount of **131.228 thousand lei** represent: expenses regarding commissions and fees, protocol expenses, advertising expenses, sponsorship expense, goods and personnel transport services, travel, transfer costs, bank services costs, mailing taxes and telecommunications costs, guarding and protection services, maintenance of the IT utilities services, personnel training services, costs for the revaluation of property, plant and equipment and intangible assets, waste management services, etc.

B. Tax expenses and assimilated payments in amount of **174.922 thousand lei** include: decommissioning tax for the nuclear units and final storage of the radioactive waste tax, taxes and tariffs for CNCAN, expenses with taxes and tariffs for OPCOM, taxes for land and buildings due to

the local and state budgets, withholding tax as well as other taxes. In this chapter, the expenses with other taxes is decreased by 27,65% compared with the same expenses of 2014, due to the change in quota of the tax on special constructions from 1,5% to 1% in accordance with art. 296 of the Law no. 571/2003 regarding the Fiscal Code.

C. Personnel expenses, in amount of **300.196 thousand lei**, include: salary expenses, bonuses, other personnel expense, expenses related to the mandate contract and other governing and controlling bodies, commissions and committees and expenses with the insurance of social protection, special funds and other legal obligations. In 2015, an increase of the inflation index with 2,2% was considered for the salary expenses as per article 49, paragraph 1 of the Law no. 186/2014 of the state budget for 2015 and the provisions of the Memorandum „Measures to be considered in preparing the revenues and expenses budget for 2015 for the commercial companies with equity and patrimony owned directly or indirectly by the state”. Thus, the possibility to increase the salary fund with the average inflation index is given, this increase being captured in the REB considering the fact that the salary fund has not been increased since 2013.

D. Other operating expenses, in amount of **533.787 thousand lei**, include: expenses related to non-current assets, depreciation and amortisation expenses for property, plant and equipment and intangible assets, adjustments, impairments and provisions (provisions for the intermediary storage of the spent fuel, pensions provision, provision related to the mandate contracts and provision for the employees participation to profit) and other expenses (annual contributions to ANRE, value of the energy compensation for retired personnel etc). The depreciation expenses of property, plant and equipment and intangible assets (474.358 thousand lei) are estimated with an increase of 5,04% compared to the same expenses from the previous year, due to the volume of the ongoing investments which will be completed and commissioned in 2015.

2. For underlying the financial expenses, the expenses with the interest and commissions to be due and paid in 2015 were considered. An exchange rate of 4,42 lei/EUR, 3,4 lei/USD, respectively 3,25 lei/CAD was considered. These expenses also include the amount of 7.848 thousand lei representing expense with the risk commission for failure to reimburse the contracted borrowings for the completion and commissioning of Unit 2 of Cernavoda NPP paid at the first drawdown of the borrowing and which is amortized during the reimbursement period, in accordance with IFRS.

III. GROSS RESULT

An operating profit of **57.746 thousand lei** resulted for the year 2015, based on the estimated revenues and expenses. **The gross budgeted profit**, including the financial result is in amount of **43.410 thousand lei**.

IV. CORPORATE TAX

The corporate tax was determined in accordance with the provisions of the Law no. 571/2003 regarding the Fiscal Code. The estimation of the fiscal non-deductible expenses and of the tax free revenues for calculating the profit for 2015, was performed based on the preliminary results of 2014.

V. INVESTMENT FINANCING SOURCES

The investment financing sources for 2015, in amount of 535.788 thousand lei are represented by the Company's own resources, namely depreciation and profit.

VI. INVESTMENT EXPENSES in 2015, in amount of 503.473 thousand lei, were adjusted depending on the investment objectives due to the completed and provided in the strategic programs of the Company, being structured as follows:

- The amount of 210.958 thousand lei representing the reimbursement of the instalments related to the contracted credits for the completion and commissioning of Unit 2, due in 2015
- The amount of 40.004 thousand lei representing the investment program of SNN Head Office, out of which: 9.489 thousand lei for the investment in U3-U5 (includes the contribution to the Joint Venture equity of 8.840 thousand lei for the project Units 3 and 4), 8.900 thousand lei for the share capital increase of the project company Tarnita-Lapustesti, underwater cable Romania-Turkey Project – 8.840 thousand lei, which will be paid depending on the future corporate decisions;
- The amount of 230.355 thousand lei representing the value of the investment program of Cernavoda NPP;
- The amount of 22.156 thousand lei representing the value of the investment program of FCN Pitesti

The investments and the payment of the service debt will be financed from the profit and depreciation. The underlying of the REB was verified by the financial management control.

**CEO,
Daniela Lulache**

**CFO,
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Appendices:

- Appedix 1 – Revenues and Expenses Budget for the financial year 2015
- Appedix 2 – Details of the financial and economic indicators from the Revenues and Expenses Budget for the financial year 2015