



**Approved,**

**President of the Board of Directors**

**Alexandru Sandulescu**

**REPORT**  
**on the substantiation of Income and Expenses Budget project of**  
**S.N. "Nuclearelectrica" SA for 2016**

The Income and Expenses Budget Project („IEB”) of SN Nuclearelectrica S.A. („SNN”) for 2016 was developed according to the provisions of E.G.O. no. 26/2013 *regarding the strengthening of financial discipline at the level of certain economic operators where the state or the territorial and administrative divisions are sole or majority shareholders or directly or indirectly own the majority of shares*, with subsequent amendments and additions to the GO no. 11/2016, regulating:

- Art. 6 paragraph (1<sup>1</sup>) *The economic operators provided at art. 4 paragraph (1) letter d), which shares are listed for transaction on a regulated market and their branches, submit to the GMS, according to the law, for approval, after previously consulting the syndicate organization, the income and expenses budget, accompanied by the substantiation annexes, drafted according to the current legal provisions, within 60 days from the effective date of the state budget or from the approval date of the local budget approval for communes, towns, municipalities, sectors of the Bucharest municipality, counties and Bucharest Municipality, as the case may be.*

According to paragraph (2) of art. 2 of the GO no. 11/2016 *for amending and completing the GO no. 26/2013 regarding the strengthening of the financial discipline at the level of certain economic operators where the state or the territorial and administrative divisions are sole or majority shareholders or directly or indirectly own the majority of shares* the terms provided at art. 6 paragraph (1<sup>1</sup>) for the financial year 2016 start from the effective date of the GO 11/2016.

- Art. 7 paragraph (1) *Annually, by the state budget law, wage policies based objectives are established, based on which the economic operators substantiate indicators from the income and expenses budgets.*

- Art. 9 paragraph (1) *For the substantiation of the income and expenses budgets, the economic operators consider, but without a limitation, the following:*

a) *compliance with the Government policy and respectively the territorial and administrative divisions regarding the improvement of the economic-financial performances of the economic operators;*

b) *compliance with the wage policy objectives, established by the annual state budget law.*

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No. with the Trade Register: J40/7403/1998, Sole Registration Code: 10874881,

Subscribed and paid-up capital: lei 3,015,138,510

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The substantiation of the SNN IEB was performed by complying with the legal provisions consisted in:

- Law no. 339/2015 for the 2016 state budget.
- GO no. 26/2013 regarding the compliance of the strengthening of the financial discipline at the level of certain economic operators where the state or the territorial and administrative divisions are sole or majority shareholders or directly or indirectly own the majority of shares, with subsequent amendments and additions;
- GO no. 11/2016 for the amendment and addition of the GO no. 26/2013 regarding the compliance of the strengthening of the financial discipline at the level of certain economic operators where the state or the territorial and administrative divisions are sole or majority shareholders or directly or indirectly own the majority of shares;
- Order of the MPF no. 20/2016 regarding the approval of the form and structure of the income and expenses budget, as well as its substantiation annexes.

The Project of the Income and Expenses Budget for 2016 was submitted to the analysis of the syndicate organizations and financial audit control according to the GD no. 1151/2012 for the approval of the Methodological Standards regarding the means of organization and performance of the financial audit.

The main economic-financial indicators provided in the budget proposal for income and expenses for 2016 are presented below.

No.	Indicators	Accrued for previous 2015	Proposals for the current 2016	%
<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4=3/2</b>
1	<b>TOTAL INCOME, of which:</b>	<b>1,949,747</b>	<b>1,829,038</b>	<b>94%</b>
1.1	Exploitation income	1,780,717	1,700,316	95%
1.2	Financial income	169,031	128,722	76%
2	<b>TOTAL EXPENSES</b>	<b>1,770,522</b>	<b>1,765,188</b>	<b>100%</b>
2.1	Exploitation expenses	1,621,394	1,640,639	101%
2.2	Financial expenses	149,128	124,549	84%
3	<b>GROSS PROFIT</b>	<b>179,226</b>	<b>63,850</b>	<b>36%</b>
4	<b>Income contribution</b>	<b>29,385</b>	<b>22,729</b>	<b>77%</b>
5	<b>NET PROFIT</b>	<b>149,841</b>	<b>41,121</b>	<b>27%</b>

## I. TOTAL INCOME

The total income was estimated for the amount of **lei 1,829,038 thousand**, of which exploitation income **lei 1,700,316 thousand** and financial income **lei 128,722 thousand**

**1. The exploitation income**, amounting to **lei 1,700,316 thousand** consist in income from the sold production, in the amount of **lei 1,633,852 thousand**, of which income from product sales represents **lei 1,632,568 thousand**.

The latter consist in income from electrical and thermal energy sale.

The volume of electrical energy forecast to be delivered (10,323 thousand MWh) was estimated based on the electrical energy production plan for 2016 approved by Decision no. 128 of the SNN's BoD from 15.09.2015. The production plan was developed considering the operation of nuclear units on a power level around nominal power, a planned interruption period, for Unit 1, of approx. 52 days and unplanned interruptions, for Units 1 and 2, estimated for approx. 355 hours based on previous data.

Based on the Decision of the BoD, from 11.11.2015, the planned interruption schedule was extended to 52 days for performing certain additional maintenance works for the steam generator, standard approach for CANDU 6 type plants globally, performed once during the initial life-span of the nuclear unit.

The volume of electrical energy to be sold on a regular basis (1,454 thousand MWh) was established by RAE and represents 14.09% of the volume of energy estimated to be produced and delivered. The selling price on the regulated market considered for 2016 is lei 162.71 /MWh (without the area transport fee for electrical energy - TG), representing the average regulated price established by RAE for 2016 (resulted from the average fee for rush hour-periods and uncovered hours);

For the competitive market, the income forecast was based on contracts concluded up to the drafting date of the IEB for the electrical energy delivery to take place in 2016, as well as on the price hypothesis regarding the average price on the Centralized Market for Electricity Bilateral Contracts (CMBC) and respectively The Day Ahead Market (DAM) for the rest of the year, together with the sales mix on CMBC and DAM of the electrical energy volume.

In conclusion, the amount of the forecast electrical energy production to be sold in 2015 is **lei 1,630,463 thousand**.

The income from selling thermal energy was estimated considering a volume of thermal energy delivered of approx. 61 thousand Gcal, according to data from the previous consumption figures locally (Cernavoda). The price used for the thermal energy sold to the population is lei 30 /Gcal, a price regulated by RAE, and the average selling price to other economic agents is lei 155 /Gcal.

Therefore, the amount forecast to be obtained from selling the thermal energy production in 2016 is **lei 2,105 thousand**.

**Income from royalties and leases** was estimated for the amount of **lei 462 thousand**, and other **income** in the amount of **lei 822 thousand** is represented, mainly, by income from selling green certificates acquired according to the Law no. 134/18.07.2012 for complying with the regulated obligations for the Transelectrica consumer and by the income performed from accommodation in CNE Cernavoda campus.

**Income from selling merchandise** in the amount of **lei 40,760 thousand**, consist in the value of electrical energy transportation. The transportation fee for Dobrogea area was reduced from lei 10.32 /MWh to lei 4.04 /MWh starting July 1<sup>st</sup>, 2015, according to RAE Order no. 89/15.06.2015. This fee is not decided by SNN, being a regulated fee. This type of income has a correspondent in the cost of sold merchandise, due to the fact that the area transportation fee is paid by SNN clients, therefore these elements are beyond SNN's control. Nevertheless, it must be mentioned that this decrease affects only the total income level, profitability not being affected due to the fact that this is a fee invoiced to clients for expenses.

**Other exploitation income**, in the amount of **lei 15,931 thousand**, mainly derive from subsidies income representing loan repayment and interest payment made by the Romanian State to the banks, in the name of SNN, for financing Unit 1; these amounts are annually reviewed on income, related to the write-off of fix assets financed from the respective subsidies. Income from assets selling and other capital operations represent an estimate of income from splitting assets approved for discarding, calculated based on the results from 2015.

**2. Financial income**, amounting to **lei 128,722 thousand**, was estimated based on the forecast of income from difference in the exchange rate between the forecast level achieved and

the one approved by IEB 2015, by the approval of GMS and interests provided by the banks in lei and foreign currency deposits made by the company, income from interests estimated at a constant level compared to the previous year, considering the dropping tendency of interest rates, compared to the average interest rates from the previous year. Other financial income mainly represents income from discounts from the mobile-phone companies, estimated based on current contracts.

## II. TOTAL EXPENSES

**Total expenses** in the amount of **lei 1,765,188 thousand**, of which exploitation expenses **lei 1,640,639 thousand** and financial expenses **lei 124,549 thousand**.

The expenses substantiation was performed considering the inflation estimated indexes and/or the evolution of the forecast exchange rates according to the 'Average-term forecast for the period 2015-2018 – fall forecast of the National Forecast Committee', for those expenses which have a relatively linear evolution, by their nature.

**1. Exploitation expenses** in the amount of **lei 1,640,639 thousand** consist in assets and services expenses, contribution expenses, taxes and other duties, taxes and similar levies, personnel expenses and other exploitation expenses.

**A. Assets and services expenses** in the amount of **lei 692,722 thousand** consisting in:

**A1 - stocks expenses** in the amount of **lei 386,472 thousand** representing the use of raw materials and materials necessary for the current maintenance plan during Plant's operation, as well as for the maintenance plan estimated to be performed during planned or unplanned interruptions, respectively spare parts, auxiliary materials, other consumable material, inventory elements and labor protection equipment, energy use, water and gas, merchandise expenses (electrical energy bought from the free market during interruptions, green certificates acquisition, tax for introducing the energy into the transportation network paid to CN Transelectrica SA – Tg, area transportation fee).

**A2 - expenses regarding third party-provided services** in the amount of **lei 149,331 thousand** representing services necessary for the SNN activities (including services necessary for the current maintenance plan during Plant's operation as well as the maintenance plan provided to be followed during the Planned Interruption on Unit 1 from CNE Cernavoda, which in 2016 also includes additional maintenance works for the steam generator, performed only once during the initial life-span of the nuclear unit), costs regarding leases and insurance premiums (mainly for the nuclear risk insurance for the Plant).

**A3 - expenses regarding other third party-provided services**, in the amount of **lei 124,387 thousand**, represent by: expenses regarding commissions and charges, protocol, commercial and advertisement expenses, sponsorship expenses, assets and people transportation expenses, traveling, assigning, transfer expenses, bank services expenses, postal and telecommunication expenses, security and protection services for objectives and personnel, services regarding the maintenance of computer technology, expenses regarding professional training, expenses regarding the reevaluation of tangible and intangible assets, radioactive waste management services etc.

**B. Contributions, taxes and other duties, taxes and similar levies expenses** in the amount of **lei 147,278 thousand** consist in expenses regarding the decommissioning fee for the nuclear units and final storage of radioactive waste, expenses regarding CNCAN taxes and fees, expenses regarding OPCOM taxes and fees, taxes and contributions on assets, due to local and central budgets, income tax for non-residential persons as well as other taxes and contributions.

In this chapter, expenses for other taxes and contributions are decreased by 40% compared to the accrued 2015 due to the classification change of certain buildings in the special category buildings, according to art. 498 of the Law 227/2015 regarding the Fiscal Code, in the category of buildings undergoing taxation. The significant impact is generated by the classification change of the two nuclear units, being considered buildings according to the Current Fiscal Code (certain exceptions were eliminated from building definition); therefore, SNN shall owe a building tax for the nuclear units, payable to the Local Authority Council Cernavoda, instead of construction tax (payable to the state budget). Based on the Decision of the Cernavoda Local Authority Council no. 305/21.12.2015, the tax rate applicable to non-residential buildings is 0.5% applied to the tax value of existent constructions existent on December 31<sup>st</sup>, 2015; the tax value for buildings on 31.12.2015 was established by a certified valuator, member of ANEVAR, according to applicable standards (ANEVAR GEV-500 Guide), respectively East Bridge SRL.

**C - Personnel expenses**, in the amount of **lei 315,539 thousand**, consist in: wage expenses, other personnel expenses, expenses corresponding to the mandate contract and other leadership and control authorities, commissions and committees, expenses regarding insurances and social security, special funds and other legal obligations. In 2016 was provided an increase of wage expenses according to art. 54 paragraph 1 letter b) of the *Law no. 339/2015 of the state budget for 2016*. Therefore, it is create the possibility of increasing wage expenses with the amounts corresponding to the increase of wage expenses for the entire 2016 determined following the provisions of a wage increase in 2015. Due to the fact that in 2015 the basic gross wage per company was increased by 2.2% starting October 2015, IEB 2016 was supplemented by the difference corresponding to the increase of wage expenses from Q 4 of 2015, extrapolate for the three Q of 2015, where no increase was provided.

**D. Other exploitation expenses**, in the amount of **lei 517,632 thousand** consist in: fixed assets expenses, tangible and intangible assets write-off expenses, adjustments and depreciations for loss of value and provisions (provision for the intermediate storage expenses for burnt fuel, provision for pensions, provision regarding mandate contracts and provision for employees' participating to profit) and other expenses (annual RAE contribution, counter value for electrical energy for retired persons, etc.).

2. For the substantiation of the **financial expenses** in the amount of lei 124,549 thousand were considered interests and commissions expenses, due in 2016, exchange rate differences corresponding to external credits contracted for the performance and operation of Unit 2 from CNE Cernavoda, as well as other financial costs. Was considered an average exchange rate of lei 4.44 /EUR (according to the fall forecast of the National Forecast Committee). These expenses consisted in the amount of lei 7,828 thousand representing non-refunding risk for credits contracted for the performance and operation of Unit 2 from CNE Cernavoda, paid during the first credit withdrawal and liquidated during the reimbursement period.

### III. GROSS RESULT

For 2016, based on forecast income and expenses resulted an **exploitation profit amounting to lei 59,677 thousand**. The **budgeted gross profit**, including also the financial result amounts to **lei 63,850 thousand**.

### IV. PROFIT CONTRIBUTION

Expenses with profit contribution were determined according to the provisions of the Law no. 571/2003 regarding Fiscal Code. The estimate of the non-deductible fiscal expenses and income not undergoing taxation to the calculation of the profit contribution for 2016 was performed, considering the achievements forecast for 2015.

**V. INVESTMENT FINANCING SOURCES** for 2016, amounting to lei 552,174 thousand are represented by inherent sources, respectively write-off and profit.

**VI. INVESTMENT EXPENSES** for 2016, amounting to lei 460,622 thousand were established depending on the necessary investment objectives to be performed and provided in the strategic plans of the company, being structured as follows:

- the amount of lei 205,228 thousand representing the reimbursement of installments corresponding to credits contracted for the performance and operation of Unit 2, overdue in 2016.
- the amount of lei 23,026 thousand representing the SNN Executive investment plan, of which: lei 8,880 thousand initial contribution to the Joint Venture share for the Unit 3&4 project;
- the amount of lei 213,210 thousand representing the counter value of the investment plan of CNE Cernavoda;
- the amount of lei 19,159 thousand representing the counter value of the investment plan for FCN Pitesti branch.

**The main** investment projects considered in the investment plan are:

**1) Key-investments mentioned in the management plan**

- Intermediate storage area for burnt fuel (including SICA U#2) – lei 17,420 thousand
- Upgrade and extension of Physical protection system – lei 5,000 thousand
- Improving the CNE Cernavoda response, respectively the nuclear security functions in case of events outside the design bases following the nuclear accident occurred at the Fukushima 1 nuclear plant, Japan – lei 31,304 thousand

**2) Major investments**

- Improvement of thermal performance of steam generators from Unit 1 by cleaning their "U" tubes – lei 42,899 thousand
- Replacing the 1-41220-PL743/3501 GENEREX excitation system from U1 – lei 23,083 thousand
- Contribution to the Joint Venture share for the Unit 3 Project- lei 8,840 thousand
- Extension of the life-span of Unit 1 by re-tubing the reactor and retooling the main systems – lei 8,817 thousand
- Software program for the plant's integrated management (Work Management System) – lei 6,025 thousand
- Installation of access gates in the water input supply / pre-heater room area – lei 5,608 thousand
- Retooling the ball cleaning system of the U1 condenser – lei 4,862 thousand
- Updating the communication infrastructure, establishment of the data center according to the TIA942-1 Standard and implementing measures for reducing the information security risk – lei 3,164 thousand
- Alternative center for emergency control for U1+U2 – lei 3,000 thousand

Investments and payment of the debt service follow to be financed from profit and write-off.

**CEO,  
Daniela Lulache**

**CFO,  
Mihai Darie**

**Annexes:**

- IEB for 2016 and forecast for 2017 – 2018: Annex no. 1\*;
- Particularization of the economic-financial indicators provided in the IEB and their distribution on quarters: annex no. 2\*;
- Degree of performing total income: Annex no. 3\*;
- Investment plan (Annex no. 4\*) and facilities and financing sources (Annex no. 4.1)\*;
- Improvement measures for the gross result and reducing outstanding payments: Annex no. 5\*;

**Note:** Columns corresponding to 2017 and 2018 from Annex 1, detailed on quarters and IEB from Annex 2, as well as Annexes 3-5 inclusive are not public; they can be provided to shareholders at the company's office during working hours