

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE SHAREHOLDERS OF**  
**S.N. NUCLEARELECTRICA S.A. (free translation)<sup>1</sup>**

**Report on the Consolidated Financial Statements-**

*Qualified Opinion*

- [1] We have audited the accompanying consolidated financial statements of S.N. NUCLEARELECTRICA S.A. (hereinafter referred to as "the Company") and of its subsidiary ENERGO NUCLEAR S.A. (together hereinafter referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.
- [2] In our opinion, except for the effects of the matter described in paragraph [3] below, from *Basis for qualified opinion* the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of S.N. NUCLEARELECTRICA S.A. as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Ministry of Public Finances Order no. 2844/2016 "for the approval of the accounting regulations in accordance with the International Financial Reporting Standards" and related regulations.

*Basis for qualified opinion*

- [3] As stated in the Note 5 to the consolidated financial statements, as at 31 December 2016 the Group has recorded fixed assets in progress at the aggregate book value of RON 273.960.000 (RON 273.960.000 as at 31 December 2015), comprising capitalized items for the Units 3 and 4 of Cernavoda nuclear power station. Prior to 1991, nuclear unit stations 1, 2, 3, 4 and 5 were considered as a single project and therefore, the realized constructions costs were not allocated at the level of each unit. Subsequently, the Group proceeded to the allocation of the above construction costs for the Units 3 and 4 of the nuclear power station. We could not obtain sufficient and relevant audit evidence in relation with the appropriateness of this allocation, which has effect on the valuation of these assets. These limitations have impact as well on the deferred tax liability in amount of RON 43.524.186 (RON 43.524.186 as at 31 December 2015), allocated for the units 3 and 4 as at 31 December 2016. Consequently, we were not able to determine if adjustments are needed on the fixed assets, deferred tax liability, retained earnings as at 31 December 2016, and therefore on the depreciation and amortization, profit tax and net profit for the year ended at the same date.
- [4] We conducted our audit in accordance with International Standards on Auditing ("International Standards of Auditing" or "ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

<sup>1</sup> TRANSLATOR'S EXPLANATORY NOTE: The above translation of the audit report is provided as a free translation from Romanian, which is the official and binding version.

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*Emphasis of a matter*

[5] Without qualifying our opinion, we draw attention to Notes 5 and 20 of the consolidated financial statements, which describe the fact that there is an uncertainty with regards to the going concern of the subsidiary Energonuclear S.A. The total estimated recoverable amount of the investment in Units 3 and 4 of Cernavoda, including also all capitalized individual elements of the Company, was determined by the management based on certain assumptions, professional judgments, expectations of future events, which are believed to be reasonable under the circumstances, and other factors. The estimated recoverable amount will, by definition, seldom equal the related actual results. At the date of the issue of these individual financial statements the estimated recoverable value of the aforesaid investment exceeded its carrying value under the assumption that the current negotiations between the management of the Group and the potential investor will be successfully concluded. In the event that any of the assumptions, professional judgments, expectations of future events and other factors do not materialize this may cause a material adjustment to the carrying amounts of the individual Group's assets, liabilities and results within the next financial year, the impact of which cannot be reasonably estimated as of the date of the issue of these individual financial statements.

*Key Audit Matters*

[6] Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit approached the key audit matter
<p><b>Change in accounting policies</b></p> <p>Starting with year 2016 the Group has decided to change the accounting policy used for measuring the cost at year end for inventories, from FIFO to Weighted Average Cost ("WAC") method. The aggregate cost of such inventories measured based on WAC method was as at 31 December 2016 approximately RON 331 million. As per discussions held with management of the Company, the change in such policy was made to eliminate the distortion caused in certain of its stock valuation by use of hyperinflation accounting made in prior years and for purposes of a more representative measurement of its stock valuation. The management considers that using WAC method provides more reliable and more relevant financial statements for the user's needs, for decision making purposes, as it results from the assessment of the two methods below:</p> <ul style="list-style-type: none"> <li>• FIFO method assumes that inventories discharged are valued at acquisition or production cost of their first entry. In case of stocks significantly old and considering the price increase, this method does not produce the most reliable results to be reflected in the income statement.</li> </ul>	<p>In order to analyze the key audit matter, our audit was based on understanding the assumptions used by the management for taking the decision, and based on our assessment of the related consequences.</p> <p>As per the OMFP 2844/2016, a change in accounting policy must be analyzed from the perspective of IAS 8 "Accounting policies, changes in accounting estimates, errors".</p> <p>A change in accounting policies can be made only when:</p> <ul style="list-style-type: none"> <li>-is required by a Standard or Interpretation</li> <li>- results in the financial statements providing reliable and more relevant information about the effects of transactions</li> </ul> <p>We consider that the application of weighted average cost indeed gives more relevant and reliable information in connection with the value of the year end respective stock.</p> <p>Also as per IAS 8 requirements, a change in accounting policies requires also a retrospective application of this change into the opening balances as at 31.12.2015. Nevertheless, prospective application is allowed when retrospective</p>

<ul style="list-style-type: none"> <li>• WAC method assumes calculation of the discharge cost based on average cost for similar items in stock at the beginning of the period or purchased during the period.</li> </ul>	<p>application is impracticable. Management concluded that it is impracticable to apply retrospectively the change of policy mainly because of the periods in which the inventories were acquired and the large number of the respective stocks and decided to use the alternative approach provided by IAS 8, regarding prospective application of the change in policy.</p>
<p><b>Assessment and presentation of inventories at net book value</b></p> <p>The Group, through the subsidiary CNE Cernavoda is handling a inventories (line items) that have a strategic importance for the functioning of the nuclear power plant.</p> <p>The majority of these inventories was acquired in prior years in order to be used for the maintenance activities needed by the nuclear power plant, as any unplanned outage generates significant expenses for the company.</p> <p>These items have been inflated several times as per IAS 29 "Financial reporting in hyperinflationary economies", during the period when Romania had a hyperinflation economy.</p> <p>In these circumstances, as at 31.12.2015 the Company has made an impairment test for these stocks items, the aggregate value of which was RON 242 million, as of the above date.</p> <p>The approach used by the company consisted in stratifying the population of stocks and analyzing the items that are significant from the perspective of one of the below criteria:</p> <ul style="list-style-type: none"> <li>-either individual significant value</li> <li>-either aggregated due to quantities held by the company, that generates again a significant value.</li> </ul> <p>Following the procedures performed to determine the possible loss of value related to existing stocks as at 31.12.2015, the company identified an impairment loss of RON 58.4 million, net of deferred tax, represented adjustments relating to prior periods.</p> <p>For the scope of preparing the financial statements as at 31.12.2016, the management of the Company has decided to update the impairment analysis based on new information available this year.</p> <p>The supplementary analysis has revealed that the adjustment concluded as at 31.12.2015 is sufficient and no further impairment allowance was needed.</p>	<p>In order to analyze the key audit matter, our audit was based on understanding the assumptions used by the management and also by analyzing and validating the information used in the model.</p> <p>In this respect we positively concluded on the calculations made by the management, as we validated the assumptions used, we checked the mathematical accuracy and we verified the completeness of the data inserted in the model.</p> <p>In the same time we checked the correct application of the accounting treatment applicable in case of a material accounting error from previous years, as per the requirements of IAS 8.</p>

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

- [7] Management of the Group is responsible for the preparation and fair presentation of the financial statements in accordance with OMFP 2844/2016 “for the approval of the accounting regulations in accordance with the International Financial Reporting Standards” and related regulations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- [8] In preparing the financial statements, management is responsible for evaluating the Company’s ability to continue as a going concern, for disclosure, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.  
Those charged with governance are responsible for overseeing the Group’s financial reporting process.

### **Auditor’s Responsibilities for the Audit of the Financial Statements**

- [9] Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, consolidatedly or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
- [10] As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
  - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

[11] We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[12] We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

[13] From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation prohibits public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on conformity of the Administrators' Report with the Consolidated Financial Statements**

[14] According article 34, point 2, letter a) and b) of the Ministry of Public Finances Order no. 2844/2016 regarding the approval of the accounting regulations compliant with the International Financial Reporting Standards ("OMFP 2844/2016"), we have read the Administrators' Report attached to the individual financial statements. The Administrators' Report is not part of the individual financial statements.

In the Administrators' Report:

- a) We have not identified information that present material disagreement with the information presented in the attached individual financial statements.
- b) The administrator report is prepared according with applicable legal requirements respectively Chapter III "Administrator report" points 15-19 from OMFP 2844/2016.
- c) Based on our knowledge and understanding acquired during our audit of financial statements for the year ended as at 31 December 2016, with regard to the company and its environment, we did not identify information significantly misstated.

The engagement partner on the audit resulting in this independent auditor's report is Ruxandra Bilius.

**Refer to the original  
signed  
Romanian Version**

**Auditor:  
RUXANDRA BILIUS  
CAFR authorization no. 1996/2006  
on behalf of:**

*BTK*

**BAKER TILLY KLITOU AND PARTNERS S.R.L.  
CAFR authorization no. 384/2003**

**Bucharest, 22 March 2017**