Approved by,
Iulian Robert Tudorache
Chairman of the Board of Directors

Note on the proposal of the Board of Directors
concerning the distribution of dividends
in accordance with the provisions of Art. II and Art. III of GEO no. 29/2017

I. <u>Legal framework and competences</u>

The Romanian Government adopted on March 30, 2017 the Emergency Ordinance no. 29/2017 (“GEO 29/2017”) *to amend Art. 1 par. (1) let. g) of the Government Ordinance no. 64/2001 on the distribution of profits in national companies, and trading companies with full or majority state capital, as well as in autonomous administrations, and to amend Art. 1 par. (2) and (3) of the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises*, as follows:

- **GO no. 64/2001:**
    - Art. 1 par. (1) let. g) stipulates that “the profit not allocated to the destinations referred to in letters a) - f) is allocated to other reserves and constitutes its own financing source, and **can be subsequently redistributed as dividends** or payments to the state budget in the case of autonomous administrations”.

In accordance with GO no. 29/2017:

- **Art. II: The amounts allocated in previous years to other reserves under the conditions of Art. (1) par. (1) let. g) of GO no. 64/2001, existing at the date of entry into force of GEO 29/2017, may be redistributed as dividends starting with the approval of the financial statements of 2016;**
- **Art. III: The existing retained earnings as at December 31 of each year may be distributed as dividends starting with the approval of the financial statements for the year 2016, including the retained earnings reflected in the financial statements for the year 2016.**

Thus, following the approval of GEO 29/2017, which amends and completes GO 64/2001, the **<u>possibility</u>** was created for companies with majority state capital to distribute reserves that constituted their own sources of financing as dividends, as well as amounts from the retained earnings.

In accordance with the provisions of Art. 111 par. 1 let. a) of the Companies Law no. 31/1990 republished ("Law 31/1990"), with the subsequent amendments and completions, as well as in accordance with Art. 13 par. (2) let. b) of the Articles of incorporation of S.N. Nuclearelectrica

S.A., **the General Meeting of Shareholders establishes the distribution of the net profit and sets the dividend.**

Thus, the General Meeting of Shareholders of S.N. Nuclearelectrica S.A. ("SNN" or "the Company") may decide to distribute additional dividends from other reserves and from the retained earnings starting with the approval of the financial statements for the year 2016.

The Ministry of Energy, as the majority shareholder of SNN, requested the following of the Board of Directors:

(i) To formulate proposals for the redistribution/ distribution of dividends, in accordance with the provisions of Art. II and Art. III of GEO no. 29/2017, accompanied by the substantiation report of these proposals, drafted by the Board of Directors and by the executive management, in order to prepare the mandate for the General Meeting of Shareholders and

(ii) Under the provisions of Art. 119 of the Companies Law no. 31/1990, with subsequent amendments and completions, to convene the General Meeting of Shareholders so as to submit the proposal for redistribution/ distribution of dividends to the approval of the shareholders.

II. Exhibition

In order to draft this proposal, SNN's Board of Directors took into account the following information and assertions presented by the executive management:

(i) Status of the amounts in the "Other reserves representing own financing sources" accounts and in the "Retained earnings" account as at December 31, 2016

As at December 31, 2016, SNN had RON 146,714,458 in the "Other reserves" account, out of which RON 128,915,264 were "Other reserves representing own financing sources", i.e. the share of the profit distributed in previous years to "Other reserves representing own financing sources". On the same date, SNN had **RON 3,664,453,196 in the cumulative retained earnings accounts.** Therefore, from the amounts reflected in these accounts additional distributions to dividends could be made on the basis of the above-mentioned provisions.

(ii) Cash and cash equivalent as at March 31, 2017

As at March 31, 2017, SNN had cash reserves of RON 275,697,727 (cash and cash equivalents); to these bank deposits with maturity over 3 months in the amount of RON 1,386,070,605 are added. Thus, **the balance of cash resources, plus short-term investments in the form of bank deposits with a maturity of more than 3 months, as at March 31, 2017 is in the amount of RON 1,661,768,332;** of these, collateral deposits for various letters of guarantee amount to RON 36,396,860.

(iii) Bank loans

As at March 31, 2017, **the balance of bank loans** (both long-term and short-term) **amounted to RON 1,275,453,199.** These loans benefit from state guarantee and are reimbursed from SNN's own sources. The final maturity of these credits is on the horizon of year 2024.

(iv) Investments

Expenditure on investments approved for 2017, as well as the forecast for 2018 and 2019, as shown in Annex no. 4 at BVC for 2017 approved by SNN GMS through Decision no. 1/ March 29, 2017 are as follows:

No.	**Investment program (acc. to Annex 4 BVC 2017, approved by GMS Decision no. 1/ March 29, 2017) – amounts in RON**	**2017**	**2018**	**2019**
1	EXPENDITURE FOR INVESTMENTS, of which:	440,717,830	554,344,861	701,447,842
2	- Expenditure on investment objectives	231,593,375	344,319,201	491,422,182
3	- Reimbursement of interest rates on investment credits	209,124,455	210,025,660	210,025,660

The Expenditure on investment objectives includes the major investment objectives of the management plan (2013-2017), as well as major strategic objectives such as "**Extension of Unit 1's life span by retubing the reactor and retrofitting the main systems"** ("U1 Retrofitting"), "**Initial contribution to the joint venture company (JVco) share capital for Units 3 and 4**" ("Project U 3&4") and "**D2O Detritiation Plant (for Units 1 and 2)**" ("Detritiation U 1& 2") as follows:

No.	**Investment name (amounts in RON)**	**Investment Program 2017**	**Investment Program 2018**	**Investment Program 2019**
1	Intermediate storage of burned fuel (*)	23,742,887	15,409,638	12,098,898
2	Modernization and extension of the physical protection system (*)	16,150,000	29,413,139	31,500,000
3	Improving CNE Cernavoada's response, i.e. nuclear safety functions in case of events beyond the design following the nuclear accident at the Fukushima 1 nuclear plant, Japan (*)	41,079,000	45,460,795	-
4	Expanding Unit 1's lifespan by retubing the reactor and retrofitting the main systems (pre-feasibility and feasibility studies)	4,000,126	44,692,430	41,478,572
5	Initial contribution to the joint venture company (JVco) share capital for Units 3 and 4	8,920,000	-	-
6	D2O Detritiation Plant (U1+U2)	-	66,713,855	317,459,158
TOTAL major investments and of major strategic importance		**93,892,013**	**201,689,857**	**402,536,628**

(*) Major investment objectives, according to the 2013-2017 Management Plan

In the short and medium term, SNN has to finance important investment projects, beyond the investments to maintain the existing operating capacity and to support the debt on loans contracted to complete Unit 2. The most important investment projects from the perspective of the investment effort are:

- **The detritiation plant, with an estimated total value of approximately EUR 170 million;**

- The **Unit 1 retrofitting project with an estimated value of EUR 1.2-1.5 billion**, estimated on the basis of a comparative analysis with other nuclear energy producers using the same technology.

Thus, in the short term, a final investment decision must be taken in connection with the detritiation plant, and in the medium term a final investment decision must be taken for the retrofitting of Unit 1 (the decision in principle of retrofitting U1 and starting the preparatory works was approved by the GMS on December 23, 2013).

Major investment projects have associated risks due to their long run times, their technical and operational complexity, the diversity of resources involved, as well as the possibility of identifying other needs in the course of their development.

Also, although investments such as the retrofitting of Unit 1 imply its shutdown for a period of approximately 2 years, which leads to the reduction of costs related to the operation of the plant, expenditures, such as salary costs, should be maintained at a level that ensures personnel retention, including during the shutdown of the unit, in order to provide the necessary expertise and experience, as well as the sufficient number of necessary personnel for the normal activity of the two units, so that during the retrofit the needs for supporting the activity with a single unit in operation will be bigger.

(v) Distribution of dividends

Between 2002 and 2012, SNN did not distribute dividends to its shareholders because the legal conditions for the distribution of dividends were not met.

SNN began paying dividends to its shareholders starting with 2013. The status of declared dividends as of 2013 is presented below:

Year	Declared dividends (RON)	Distribution rate of net profit (%)
2013	340,957,135	85.16%
2014	90,366,312	71.22%
2015	99,499,571	70.10%
2016	99,499,571	92.76%
Total 2013 - 2016	**630,322,589**	**79.81%**

**) The distribution rate is calculated by dividing the declared dividends to the net profit for the financial year, to which the employee benefit provision was added (for re-inclusion) and from which the allocations to the legal reserve and the reserves representing fiscal facilities were deducted, for each financial year, as the case may be.*

Thus, it can be seen that during the 4 year period between 2013 and 2016, SNN paid dividends amounting to **RON 630,322,589**, with distribution rates between 70.1% and 92.8% of the distributable profit, resulting in an average distribution rate of nearly 80%.

GO 64/2001 stipulates a minimum distribution of 50% of the net profit, and for the financial years 2013 and 2016, a government memorandum established that the minimum distribution rate is 85% and 90%, respectively.

The distribution of profits to shareholders should take into account a balanced allocation between dividends and retention of profit for their own financing sources.

A part of SNN's available financial sources (cash and bank deposits) come from sources attracted when the company was listed on the BVB in 2013; the amount attracted on the occasion of the listing was of RON 312,478,099, out of which: RON 281,003,950 represented the share capital and the difference of RON 31,474,149 represented issuance premiums.

Maintaining high rates of profit distribution around the 80% average over the forthcoming periods implies that the sources of financing from the profit are limited and that it is no longer a consistent source for investment financing.

Thus, the distribution of additional dividends, according to the provisions of Art. II and Art. III of GEO no. 29/2017, from other reserves and the retained earnings could result in:

- The need to cancel bank deposits with maturities over the payment term that would be set by the General Meeting of Shareholders in the case of non-correlation of this payment deadline with the maturity of these assets, with the consequence of the financial loss of the fixed term interest and of the failure to achieve financial interest income according to the revenue and expenditure budget for the year 2017, approved, which must be assumed by shareholders;

- The significant decrease in available financial reserves including for the repayment of bank loans, which could lead to the necessity of their payment by the Romanian State, as guarantor, in the event of major financial difficulties of the company, which would affect its own reimbursement capacity;

- The decapitalization of the company through the distribution of reserves, which may affect SNN's strategic projects, from the perspective of financing/ co-financing opportunities with own contributions.

Taking into account the above-mentioned considerations, at least until final investment decisions regarding strategic investment projects and the securing of their financing are made, coupled with the decrease of the degree of indebtedness by repayment of the credits contracted with state guarantee, **it is not appropriate to distribute amounts in the form of dividends, from sources other than the current profit of each financial year.**

III. Proposal of the Board of Directors regarding the distribution of dividends, in accordance with the provisions of Art. II and Art. III of GEO no. 29/2017

Taking into account the above mentioned considerations, substantiated by the executive management, **the Board of Directors proposes not to distribute additional dividends from the reserves and from the retained earnings, according to the provisions of Art. II and Art. III of GEO no. 29/2017.**

General Manager,
Daniela Lulache

Chief Financial Officer,
Mihai Darie