



**APPROVED,  
Board of Directors  
President  
Iulian Robert Tudorache**

**Notification regarding the compliance method of the requests submitted during the  
General Meeting of Shareholders from April 24, 2017**

During the General Meeting of Shareholders which occurred on April 24, 2017, for point 8 on the agenda, regarding the discharge of duties of the members of the Board of Directors for the year 2016, was not gathered the number of necessary votes for taking a decision (248,831,159 votes, representing 87.92383% of the votes expressed by the present or absent shareholders, being “abstention”).

In this regard, the majority shareholder, Ministry of Energy, stated during the meeting the fact that his abstention vote for this point of the agenda is motivated by the reservation opinion expressed by the independent auditor Baker Tilly Klitou and Partners S.R.L. in the audit report on the individual and consolidated financial statements for 2016, as well as the fact that a decision *“shall be taken during a subsequent general meeting, after the Board of Directors submits the measures necessary for clarifying the aspects pointed out by the independent auditor in the report on the financial statements for 2016 and the method of resolution”*.

In this regard, we submit the following information:

1. S.N. Nuclearelectrica S.A. (“SNN”) drafts financial statements according to the International Standards of Financial Reporting adopted by the European Union (“IFRS - UE”) starting 2013;
2. The bases of the reservation opinion expressed by the financial auditor in the audit report for the year 2016 are found in all audit opinions for the IFRS financial statements before 2016 (before 2013, SNN drafted financial statements according to IFRS as follows: individual financial statements starting 1998 and consolidated financial statements starting 2011);
3. In the audit report there is a single base of the reservation opinion, and it is due to the following:
  - a. SNN has registered, under “Fixed assets in progress” the accounting value corresponding to Units 3 and 4 CNE Cernavoda at a cost of approx. 274 million RON, consisting in capitalized costs elements for Units 3 and 4 CNE;

- b. Before 1991, units 1,2,3,4 and 5 were considered a single investment project and therefore, the building costs registered up to that date were not allocated at the level of each nuclear unit, but cumulated considering a single Project (Units 1-5);
  - c. SNN attributed the building costs for Units 3 and 4, for determining their cost, but without the possibility to perform a complete allotment considering the accounting method of the costs since the beginning of the project, respectively since before 1991;
  - d. The auditor could not obtain enough and compliant audit proof regarding the accuracy of such allotment of costs for Units 3 and 4 which have an effect on the evaluation of such assets, therefore being an inherent limitation which lead to expressing a reserved opinion;
4. The accounting policies of SNN provide that the fixed assets in progress to be reflected on the historical cost of acquisition or building or inflation cost (restated in relation with the measuring unit existent on December 31, 2003 for assets acquired before January 1, 2004).

Therefore, the reserved opinion is due to the following:

- a) The way in which were accounted the investment costs for the 5 nuclear units before 1991;
- b) The allotment of costs for Units 3 and 4 is not satisfying for the financial auditor and another alternative solution for costs allotment cannot be identified, due to inherent limitations for the accumulation of costs for the project of units 1-5 before 1991.

The only solution for eliminating this reserve, identified also during the meetings with the financial auditors, is changing the accounting policy of SNN regarding the asset reflection for Units 3 and 4 (fixed assets in progress) in a distinctive group of assets and applying the reevaluation model for reflection in the financial statements, of assets, compared to the cost model. In such situation, an independent reevaluation performed with enough regularity would be a reasonable base of reflecting such assets in the financial statements, compared to an allotted cost and might eliminate the inherent limitations during the auditing process, leading to eliminating this base of issuing a reserved opinion.

It was not considered pertinent the change of accounting policies regarding the assets for Units 3 and 4, due to at least the following reasons:

- 1. These assets are not operational, being fixed assets in progress; normal policies for reflecting fixed assets in progress are for cost, because until the end (being ongoing), these assets do not issue economic benefits, but only expect to produce, subsequently to the operation;
- 2. An independent evaluation of such assets might start from the evaluation of the physical status corroborated with the method of net replacing cost; still, the evaluator might not apply alternative methods of evaluation such as the method of market comparisons or income method (updated cash flows), due to the fact that assets are not distinctive cash generating units. The modeling of certain potential cash flows for such assets might be SNN's task, and considering the multitude of variables influencing the cash flows, the

level of uncertainty might be high, considering also the fact that the end of Project for Units 3 and 4 cannot be exclusively performed by SNN, but the State input is also needed and the contribution of a private investor;

3. Currently, negotiations are ongoing with a private investor (CGN) for the Project of Units 3 and 4 and from this point of view, such change of accounting policy might not be desirable, considering that fact that passing to the reevaluation model might presume the evaluation of such assets to their real value, if, on the other hand, the ongoing negotiations with the private investor presume inclusively an argument about certain aspects regarding the evaluation of accounting assets and policies, therefore with a possible impact on the negotiation's result;
4. The change of accounting policies are allow according to the IAS 8 International accounting Standard „Accounting policies, changes in accounting estimates and errors” only under certain conditions and currently, management considers the conditions for such accounting policy change are not complied with.

**In conclusion**, the only way of removing the base of reserved opinion is changing the SNN accounting policies regarding the assets for the Project Units 3 and 4 CNE Cernavoda, but due to all reasons stated above, the SNN management does not consider it desirable.

As shown before, inherent limitations regarding the allotment of certain historical costs for Units 3 and 4 have the origins before 1991, and such inherent limitations have built a base of reserved opinion for all audit opinions expressed by different financial auditors of SNN, for the IFRS financial statements starting 1998.

We consider these limitations shall cease to exist on its own and therefore the bases of the reserved opinion shall not exist under the following situations:

- 1) Successfully finishing the Project Units 3 and 4, considering that these assets are going to be brought as input in kind to the capital of a new project company by which shall develop the Project Units 3 and 4, so that the input value shall be determined based on an independent evaluation;
- 2) On the negative/undesirable case that it is evaluated that there are no successful chances to continue/implement the Project Units 3 and 4, because in this situation the respective assets shall be reflected with a zero value in the balance sheet, after performing depreciation adjustments.

**Daniela Lulache**  
**CEO**

**Mihai Darie**  
**CFO**