

**Approved,
Board of Directors
Chairman
Iulian - Robert Tudorache**

**NOTE
on substantiating the draft of the Revenue and Expense Budget
of S.N. "Nuclearelectrica" S.A. for 2019**

The revenue and expense budget ("BVC") of S.N. Nuclearelectrica S.A. ("SNN") for 2019 was drafted according to the provisions of GO 26/2013 *on enhancing financial discipline on the level of economic operators where the state or administrative-territorial units are sole or majority shareholders or directly or indirectly hold majority interest*, as further amended and supplemented, which regulates:

- Art. 6 par. (1[^]1) *The economic operators provided under art. 4 par. (1) let. d), whose shares are allowed for trading on a regulated market and its branches, submit to the general assembly of shareholders according to the law, for approval, after previously consulting the trade unions, the revenue and expense budget accompanied by the substantiating annexes, drafted according to the legal provisions in force, within 60 days after the state budget law becomes effective, or after the date on which the local budgets of the communes, cities, municipalities, districts of Bucharest municipality, counties and Bucharest municipality are approved, as the case may be;*
- Art. 7 par. (1) *Annually, the state budget law sets salary policy objectives based on which the economic operators substantiate the indicators from the revenue and expense budgets;*
- Art. 9 par. (1) *When substantiating the revenue and expense budgets, the economic operators consider, without limitation, the following:*
 - a) *compliance with the Government policies and those of the administrative-territorial units regarding the improvement of the economic-financial performance of the economic operators;*
 - b) *compliance with the salary policy objectives set by the annual state budget law.*

The substantiation of the Revenue and Expense Budget of SNN was performed by complying with the provisions comprised in:

- Law no. 50/2019 of the state budget for 2019;
- GO 26/2013 on enhancing financial discipline on the level of economic operators where the state or administrative-territorial units are sole or majority shareholders or directly or indirectly hold majority interest, as further amended and supplemented;
- MFP order no. 3145/2017 on approving the format and structure of the revenue and expense budget, and its substantiating annexes;
- GEO 109/2011 on corporate governance, as further amended and supplemented;
- Government Ordinance no. 64/2001 regarding the distribution of profit at national entities, national companies and commercial companies with full or majority state capital, and at autonomous administrations, as amended and supplemented;
- Law No. 227/2015 on the Civil Code, as further amended and supplemented;

- Resolution no. 326 of 25.02.2019 of ANRE;
- Emergency Ordinance no. 114/2018 on instituting measures in the field of public investments and fiscal-budget measures, amending and supplementing normative acts and prorogating terms;
- Collective employment contract of the company (“CCM”) valid in 2019;
- other applicable regulations and laws, in force.

The revenue and expense budget for 2019 was subject to a financial administrative inspection according to the provisions of GR no. 1151/2012 on approving the methodological norms on organizing and exercising the financial administrative inspection, and was approved.

The draft of the revenue and expense budget for 2019 provides a **gross profit of 447,161 thousand RON** (+22.2% vs. budgeted 2018, -21.9% vs. achieved 2018) **and a net profit of 350,041 thousand RON** (+18.5% vs. budgeted for 2018, -14.8% vs. achieved in 2018). The results are obtained based on **total revenues of 2,463,671 thousand RON** (+14.9% vs. budgeted 2018, +8.2% vs. achieved 2018) and **total expenses of 2,016,510 thousand RON** (+13.4% vs. budgeted 2018, +18.4% vs. achieved 2018), and based on the estimation of the **income tax at 97,120 thousand RON** (+37.7% vs. budgeted 2018, -40.1% vs. achieved 2018).

The level of the revenues is influenced by the provisions of GEO 114/2018 regarding the regulated price of electricity. Thus, according to the ANRE resolution no. 326/25.02.2019, SNN must sell in 2019 on the regulated market a quantity of electricity of 1,376,963 MWh, at the regulated price of 188.22 RON/MWh (without Tg), 37 RON lower than the average weighted price of sale which the company shall obtain in 2019 on the competition-based market (a price with a high degree of certainty, considering that on the date on which BVC 2019 was drafted, the company had a high percentage of electricity to deliver already contracted). Thus, the revenues unachieved following the application of the provisions of GEO 114/2018 are in value of **50,865 thousand RON**. Consequently, the percentage of increasing revenues from the budget proposal of 8.2% is distorted by these limitations. **The real percentage of increasing the total revenues that could have been considered in the absence of GEO 114/2018 would have been 10.5%:**

	thousand RON
Total revenues - proposal of BVC 2019	2,463,671
Revenues unachieved following the application of the provisions of GEO 114/2018 on the regulated price	50,865
Total achievable revenues	2,514,535
percentage of increasing revenues compared to the previous year	10.5%

Also, the level of expenses is influenced by the provisions of GEO 114/2018 regarding the increase of the tax payable to ANRE to 0.1% to 2% applicable on the turnover. The increase of the percentage causes additional expenses of **40,465 thousand RON**. Also, for 2019 we estimate an increase of the financial expenses of **19,734 thousand RON**; this expenses is beyond the control of the company and is provided at a cautious level according to the estimated for this year. Thus, the percentage of increasing expenses from the budget proposal of 18.4% is distorted by these additional increases. Moreover, in 2018 there were non-achievements in relation to the budgeted level, of **74,378 thousand RON**, especially following the delays generated by the application of the law on sectorial procurements, which did not allow the performance of all budgeted services, transferred to 2019. Consequently, **the percentage of increasing the total expenses that needs to be considered is 10.5%:**

	thousand RON
Total expenses - proposal of BVC 2019	2,016,510
Additional expenses following the application of 114/2018 on the ANRE tax	40,465
Additional financial expenses	19,734
Expenses not achieved in 2018 and transferred to 2018	74,378
Total expenses to incur related to 2019	1,881,933
real percentage of increasing expenses 2019 vs. 2018	10.5%

Thus, the percentage of increasing the total expenses and total revenues is 10.5%.

Regarding the expenses provided for 2019, the significant variations to the achieved and/or budgeted level in 2018 are substantiated in this note.

The comparisons presented below refer to the amounts budgeted for 2019 compared to the values achieved for 2018, and are indicated as “+/- x%”, unless specified otherwise.

For 2019, by proposing the Revenue and Expense Budget for 2019, outstanding payments were not provided, and the level of outstanding receivables was reduced compared to the level achieved in 2018.

By the resolution of the Board of Directors no. 187/29.10.2018, the administration component of the Administration Plan was approved. By the Resolution of the Board of Directors no. 33/07.03.2019, the management component of the Administration Plan and the Administration Plan overall were approved. The revenue and expense budget for 2019 is correlated with the Administration Plan, which contains the management component.

I. TOTALE REVENUES

The total revenues were estimated at **2,463,671 thousand RON (+8.2%)**, out of which operating revenues of **2,383,491 thousand RON (+9.3%)** and financial revenues **80,180 thousand RON (-15.5%)**.

1. Operating revenues (line 2) of 2,383,491 thousand RON comprising revenues from the sold production of **2,347,957 thousand RON (+11%) (line 3)**, out of which revenues from the sale of products represent **2,346,185 thousand RON (+11%) (line 4)** (sale of electricity and thermal energy).

1.1. Revenues from the sale of electricity - 2,340,376 thousand RON, at a quantity scheduled for sale of **10,602 GWh**, resulting an average weighted sale price of **220 RON/MWh** (price without Tg)

The premises of the budgetary construction for the revenues from the sale of electricity are as follows:

a. Schedule of the electricity delivery by CNE Cernavoda

The quantity of electricity planned to be **delivered** was estimated based on **the electricity production schedule for 2019 approved** by Resolution no. 6/04.02.2019 of the Board of Directors of SNN on the level of **10,228 thousand MWh**. To this value, we added a quantity estimated as

needed to be purchased in order to optimize the sale mix, especially during the planned and unplanned outages. The production and delivery schedule was drafted by considering the operation of the nuclear units at a high capacity factor, similar to the levels from the previous years for a multiannual period, a duration of planned outages at Unit 2 of approximately 31 days, as well as unplanned outages at Units 1 and 2, based on long-term historical data. In the nuclear industry, unplanned outages are part of a normal operation of the nuclear units, and the prudential management requires a number of unplanned outage hours depending on multiannual average values.

b. SNN electricity sale schedule

The forecast of revenues was based on a **sale schedule of 10,602 thousand MWh** and on the **contracts already concluded** on the competition-based market of bilateral contracts (PCCB-LE, PCCB-NC, PCSU and PC-OTC) until the date of drafting the BVC, for deliveries of electricity which shall take place in 2019, on the sale obligations on the **regulated market**, and on the price hypotheses related to the average price on various OPCOM platforms, for the **quantity remaining to be contracted**.

GEO no. 114/2018 *on instituting measures in the field of public investments and fiscal-budget measures, amending and supplementing normative acts and prorogating terms* provides for **March 1, 2019 - February 28, 2022** the provision of electricity to household clients under conditions regulated by ANRE. Thus, ANRE issued Resolution no. 326/25.02.2019, whereby it set a quantity of 1,377 GWh to be sold by SNN at the regulated price of **188.33 RON/MWh, without Tg**.

Thus, from combining the data related to the certain quantities and prices of the concluded sale transactions, with the hypotheses related to the quantities remaining to be sold and the estimated prices, including those on the regulated market, it results that the value of the electricity production forecasted to be sold/delivered in 2019 is **2,340,376 thousand RON**.

c. Obtaining certain revenues, given a limited production capacity

One must mention that in SNN, **the production capacity is limited by the installed power of the two operational nuclear reactors which already operate at a high average capacity factor**, significantly over the industry average value, and by the duration of the planned outages of Unit 2 of 31 days and the number of hours of unplanned outages that was budgeted. Units 1 and 2 are first in the world by the combined factor of using the production capacity after commissioning. The prices on the competition-based market are freely formed, based on the competition, mainly by the ratio between demand and supply. Thus, the predominant element of influence on the operating revenues is represented by the market price of the electricity. **Nevertheless, for 2019, there is a high degree of certainty regarding the achievement of the revenues proposed by this BVC draft, considering the significant proportion of the already contracted quantity, plus the quantity to be sold on the regulated market in 2019.**

1.2. Revenues from the sale of thermal energy - 5,809 thousand RON

The revenues from the sale of thermal energy were estimated by considering a quantity of thermal energy delivered of approximately 67.6% thousand Gcal, at the production and transportation price of 85.93 RON/Gcal.

Thus, the forecasted value to be obtained from the sale of thermal energy in 2019 is **5,809 thousand RON**, therefore a low weight in the total operating revenues.

1.3. Revenues from royalties and rents (line 6) were estimated at **782 thousand RON** representing revenues obtained from leasing lands and administrative premises, and **other revenues (line 7) in value of 990 thousand RON** are represented by various revenues, including revenues from selling green certificates.

1.4. Revenues related to the cost of the production in progress (line 13) – 6,686 thousand RON, estimated according to the planned production of nuclear fuel bundles at FCN Pitesti.

1.5. Revenues from the sale of commodities (line 8) in amount of **12,077 thousand RON (+3.4%)** represent the value of electricity transportation. The transportation fee set by ANRE order 108/2018 is 1.18 RON/MWh (regulated fee), starting with July 2018, therefore estimated for 2019 also at this value. This type of revenues has a corresponding value in the cost of the sold commodities, invoiced to SNN clients.

1.6. Other operating revenues, of 16,771 thousand RON (-54%), mainly represent revenues from investment subsidies, representing loan reimbursements and interest payments made by the Romanian State to banks, on behalf of SNN, for financing Unit 1; these amounts are annually taken over as revenues, based on the amortization of fixed assets financed from the respective subsidies. These revenues also estimate revenues from the sale of tangible assets related to amounts estimated to be obtained following the capitalization of some unused assets. We would like to mention that in 2018 there were revenues from penalties over the budgeted level, and for 2019 we do not expect such revenues on a significant level.

2. Financial revenues, of 80,180 thousand RON (-15.5%), were estimated based on the forecasts of revenues from various exchange rate differences and interests to be paid by banks at deposits in RON and foreign currencies set up by the company, revenues from interests forecasted on a level below the one realized in the previous year, compared to the average interest rates from the previous year, and the estimated average balance of monetary liquidities.

II. TOTAL EXPENSES

Total expenses of 2,016,510 thousand RON (+18%) comprising operating expenses of **1,937,920 thousand RON (+18%)** and financial expenses of **78,590 thousand RON (+33.5%)**.

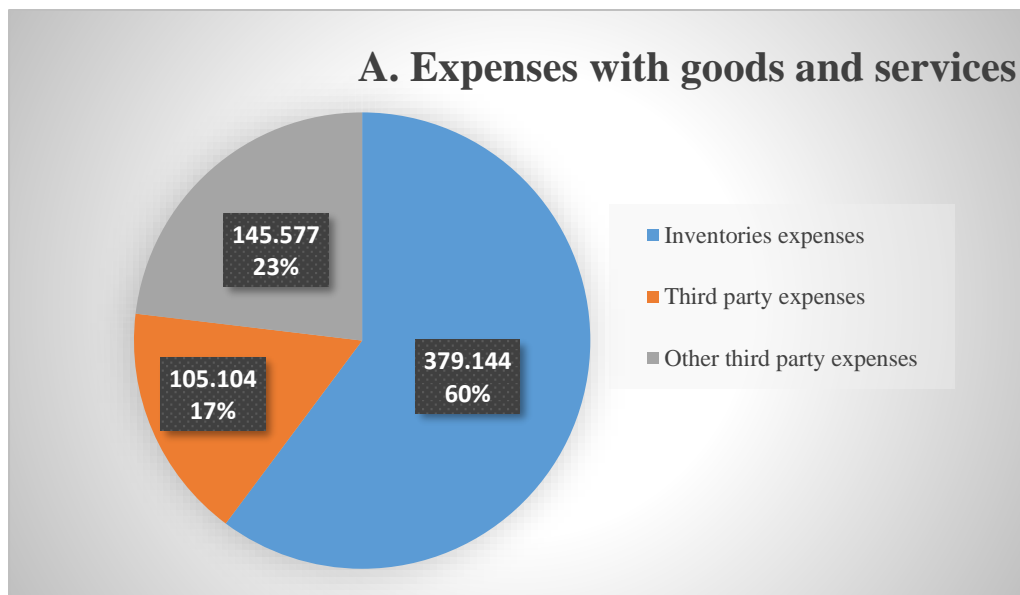
The expenses were substantiated given the estimated indexes of the inflation and/or the evolution of the currency exchange rates estimated according to the winter forecast of the National Forecast Commission, for those costs, which by their nature have a relatively linear evolution.

A nuclear plant can operate under full nuclear security and operational excellence conditions, only by ensuring the financial resources that are necessary for the maintenance, operation and investment activities; thus, on the level of the operation and maintenance expenses, the budget construction philosophy has a “bottom up” approach, namely the activities scheduled on a detail level are those that generate annual and multi-annual needs. This is the manner by which the company ensures the resources that are necessary for reaching the aforementioned objectives, specific to the nuclear industry.

1. Operating expenses of 1,937,920 thousand RON (+18% vs. achieved in 2018, +13% vs. budgeted 2018) are made of expenses with goods and services, expenses with taxes, duties and assimilated payments, expenses with personnel and other operating expenses.

A. Expenses with goods and services of 629,825 thousand RON (+37% vs. achieved 2018, +9% vs. budgeted 2018) comprising the expenses detailed below:

Indicators	Row no.	Provisions for the previous year 2018		Proposals for the current year 2019	%	%
		OGAS Resolution no. 3/ 02.03.2018	Achieved 2018			
0	1	2	3	4	5=4/2	6=4/3
A1	Inventory expenses	325,807	272,712	379,144	116%	139%
A2	Expenses with third party services	115,487	94,297	105,104	91%	111
A3	Expenses with third party services	137,985	92,949	145,577	106%	157%
	TOTAL	579,280	459,959	629,825	109%	137%



A1 - Expenses with inventories of 379,144 thousand RON (+39% vs. achieved 2018, +16% vs. budgeted 2018), represent the consumption of raw materials and materials necessary for both the current maintenance schedule with the Power Station operational, and for the maintenance schedule provided to be implemented in planned or unplanned outages, namely spare parts, auxiliary materials, other consumables, inventory items and occupational protection equipment, consumption of energy, water and gas, expenses with commodities (electricity purchased from the free market during the outages, purchasing green certificates, tax for introducing the energy in the transportation network paid at CN Transelectrica SA – regional transportation fee Tg).

A1 - Inventory expenses	Row no.	Provisions for the previous year 2018		Proposals for the current year 2019	%	%
		OGAS Resolution no. 3/ 02.03.2018	Achieved 2018			
0	1	2	3	4	5=4/2	6=4/3
a)	expenses with raw materials	113,126	101,992	119,608	106%	117%
b)	expenses with consumables	53,306	47,002	59,146	111	126%
c)	expenses regarding materials such as inventory items	3,872	1,118	4,692	121%	420%
d)	Energy and water expenses	81,489	78,040	82,170	101%	105%
e)	commodity expenses	74,014	44,559	113,529	153%	255%
	TOTAL	325,807	272,712	379,144	116%	139%

a) Expenses with raw materials of 119,608 thousand RON (+17% vs. achieved 2018, +6% vs. budgeted 2018) represent the consumption of uranium sintering powder, in order to manufacture nuclear fuel. The expenses for 2019 were mainly determined based on the physical production and the estimated costs for purchasing uranium powder and Zircaloy-4 products. The expenses with sintering U powder in UO₂ were calculated by considering the uranium inventory existing on 31.12.2018 and the average of the prices of the latest orders launched to CAMECO Canada and CNU. According to law 193/2018, uranium dioxide powder can be purchased only from CNU, at a regulated price. If CNY cannot ensure the necessary powder in the requested quantity and quality, SNN can purchase it by importing it. If the price of the powder, which shall be regulated, contracted, has significant variations compared to the budget estimate (increase/decrease), this budget position must be rectified.

b) Expenses with consumables of 59,146 thousand RON (+26% vs. achieved 2018, +11% vs. budgeted 2018), are made of:

- expenses with spare parts (17,760 thousand RON), expenses mainly generated by the programs for the current maintenance, repair and replacement of nuclear units (this expense chapter does not include essential and vital spare parts, and partially critical ones, elements which, given that they have a period of use longer than 1 year, are acknowledged according to IAS 16 in assets, for which the amortization is calculated);
- fuel expenses (5,622 thousand RON), an increase by approximately 3,000 thousand RON in order to cover the necessary light liquid fuel (CLU) for the Startup Thermal Station;
- expenses with other materials and consumables (35,764 thousand RON) represent the consumption of materials for current maintenance and repairs, radio protection and labor protection, administrative, such as: technical and special gas, oils, chemicals, radio protection materials and other consumables. The increase by approximately 7,000 thousand RON is due to the high necessity of consumables for the maintenance of the STA chemical laboratory (state, reagents, acids, resins, filters), and the necessary consumables for controlling contamination, personnel exposure, sample taking, etc.

c) Expenses regarding materials such as inventory items in value of 4,692 thousand RON. In 2019 we estimated additional expenses in value of approximately 3,500 thousand RON, designed especially for supporting the activities of the maintenance and repair, radio protection, administrative and physical protection departments, representing kits of tools for electronic engineers, drills, workbenches with drawers, tackles, protection equipment necessary for the performance of current activities. These expenses were transferred from 2018.

d) Energy and water expenses in value of 81.489 thousand RON, including technological water expenses, the consumption of current water and electricity for the outdoor premises. The expenses with technological water represent expenses for using cooling water from the Danube, which for 2019 are slightly higher mainly because of the necessity to transit higher volumes of water (for 60 days) on race II Danube Black Sea Canal ("CDMN") for maintenance works on the lane II tunnel and the concrete canal Valea Seimeni, works that are performed once every 10-12 years. The performance time of the works was estimated based on the experience from 2009.

e) Expenses with commodities of 113,529 thousand RON. This category includes:

- **the equivalent value of the transportation of electricity** at the regulated fee (TG) paid by CN "Transelectrica" SA for injecting the electricity in the electricity transportation network, which is also found in the revenues from commodity sales, at the same values, as it is invoiced and recovered from clients - **12,077 thousand RON**, with a slight increase, following the application of the fee regulated by ANRE by Order 108/2018, deciding the increase of the fee from 1.05 RON/MWh to 1.18 RON/MWh, as of July 1, 2018;

- **expenses with the electricity estimated to be purchased** from the free market during the outages - **101,452 thousand RON**, especially unplanned outages; this energy is provided for complying with the obligations provided in the contracts for selling electricity concluded with clients, considering the unavailable quantities caused by the outages. The variation from the budgeted level for 2018 comes from the 16% increase, according to the current market conditions, of the average estimated price for purchasing a quantity 38% higher than the quantity budgeted in 2018. The variation to the level achieved for 2018 comes from including the quantity of electricity to be purchased in order to cover the production deficit during the planned or unplanned outages, in order to allow the sale of additional quantities, in order to optimize the sale mix, while the level achieved in 2018 was below the budgeted one, because of performance savings.

This expense chapter can obtain performance savings (such as in 2018), but only if the number of hours of unplanned outages is significantly lower than the number of hours of budgeted unplanned outages, and the cost of the purchased energy is lower than or equal to the budgeted level.

According to the recommendations formulated by the manufacturer and the standards from the industry, for a CANDU 6 power station approximately 150 hours of unplanned outages a year are estimated for each unit. Prudentially, SNN estimates for 2019 a number of hours of unplanned outages of approximately 300 hours for the two nuclear reactors, however, depending on the actual operation of the power station, the number of hours of unplanned outage actually obtained can be lower or higher than the planned one; for example, in 2018, approximately 300 hours of unplanned outages were budgeted, and approximately 157 hours were achieved for both units. Concomitantly, in the performance, the price at which electricity was purchased in order to cover the deficit during the planned and unplanned outages was lower than the price at which this expense was budgeted (-8%), which cannot be controlled by SNN. Consequently, there can be performance savings, but which cannot be ignored or reduced when the BVC is drafted; on the other hand, exceeding the number of hours of unplanned outages, namely the fluctuation of the purchase price for this energy necessity, can cause the budgeted expenses to be exceeded.

The expense level is influenced by the necessity of budgeting a quantity of energy to be purchased in the period of planned and unplanned outages, which causes a high level of “commodity expenses” at least to the budgeted level.

Expenses are prudentially substantiated, by keeping the high level of the quality standards that are necessary for operating and maintaining the power stations.

The aforementioned aspects have led to the increase of the level estimated for the commodity expenses (a chapter which reflects the electricity purchased for planned and unplanned outages), both to the level budgeted for 2018 and to the level achieved in 2018.

A2 - expenses regarding services performed by third parties in value of **105,104 thousand RON** (+12% vs. achieved 2018, -9% vs. budgeted 2018). The estimated level of the services is based on the specific operation requirements, and on the contracts in progress that generally are multi-annual, so the level of the fees from the contracts is certain.

A2 - Other expenses with services provided by third parties		Row no.	Provisions for the previous year 2018		Proposals for the current year 2019	%	%
			OGAS Resolution no. 3/ 02.03.2018	Achieved 2018			
0		1	2	3	4	5=4/2	6=4/3
a)	expenses with maintenance and repairs	41	97,857	81,426	90,557	93%	111
b)	rent expenses	42	566	438	486	86%	111

c)	insurance premiums	45	17,064	12,433	14,060	82%	113%
	TOTAL	40	115,487	94,297	105,104	91%	111

a) **Expenses with maintenance and repairs (90,557 thousand RON)**, comprising both the services necessary for the current maintenance program with the power station operational for all the systems of the power station (electrical systems, ventilation systems, mechanical systems, the monitoring of process parameters, of equipment and installations from the fixed front, the sieve room and the pump room, the room for power transformers, for lifting installations, for the “STA” water treatment station, etc.), and the maintenance and repair services of Unit 2 scheduled for the planned outage of May (those repair and maintenance services that does not represent investments, but expenses). The proposed value for this expense chapter is correlated with the maintenance and repair program, included in the Annual Activity Plan.

b) **Rent expenses** are estimated at **486 thousand RON** and comprise the expenses regarding leased areas for storing equipment and materials administered by CNE, in the Saligny area, the rent for the nitrogen and hydrogen storage tanks, the rent for the portable multi-gas detectors and the concession taxes for the lands in Saligny. The value estimated for 2019 is maintained on the level of 2018.

c) **Expenses with insurance premiums (14,060 thousand RON)** include the nuclear risk insurance of the Power Station, the liability insurance for the management and administration personnel, the insurance regarding traveling abroad, the insurance for occupational accidents and work-related diseases for the SNN personnel, and other insurance. The level budgeted in 2019 represents the maximal level, which can be achieved, under the conditions provided by these types of insurance, higher than the level achieved for 2018, the period in which the company benefited from the reimbursement of an insurance premium from the total equivalent value of the nuclear risk insurance.

A3 - expenses with other services performed by third parties, of 145,577 thousand RON (+57% vs. achieved 2018, +6% vs. budgeted 2018) represents: expenses with commissions and fees, hospitality expenses, advertising and promotion expenses, sponsorship expenses, expenses with the transportation of goods and persons, expenses with traveling, secondments, transfers, expenses, expenses with banking services, postal expenses and telecommunications taxes, services of ensuring the security and protection of the units and personnel, services regarding the maintenance of the computing technology, personnel training services, services for managing radioactive waste, etc. Also in case of this expense category, the significant weight is that of services generated by CNE Cernavoda, and it is necessary to budget covering resources for the scheduled activities. On a contractual level, the existence in progress of multiannual service contracts adds certainty to the quantity and value level of these service expenses.

A3 - Expenses with third party services	Row no.	Provisions for the previous year 2018		Proposals for the current year 2019	%	%
		OGAS Resolution no. 3/ 02.03.2018	Achieved 2018			
0	1	2	3	4	5=4/2	6=4/3
a) expenses with collaborators	47	-	-	-	0%	0%
b) expenses with commissions and fees	48	469	97	491	105%	505%
c) hospitality, promotion and advertising expenses	50	628	693	911	145%	132%
d) Sponsorship expenses, according to GEO no.2/2015	57	179	364	10,856	6065%	2980%
e) expenses with the transportation of goods and persons	62	3.839	3.595	4.312	112%	120%

f)	expenses with travels, secondments, transfers	63	2.627	2.438	3.417	130%	140%
g)	postal expenses and telecommunications taxes	67	691	584	832	120%	143%
h)	expenses with banking and assimilated services	68	334	555	632	190%	114%
i)	other expenses with services provided by third parties	69	31.784	23.742	30.584	96%	129%
j)	other expenses	78	97.435	60.882	93.542	96%	154%
	TOTAL	46	137,985	92,949	145,577	106%	157%

- **expenses with commissions and fees (line 48) – 491 thousand lei**, mainly represent expenses with legal consultancy, budgeted for 2018, and according to the estimated on the external necessary consultancy in 2019;
- **Hospitality, promotion and advertising expenses (line 50) are estimated at 911 thousand RON**, as follows:
 - Hospitality expenses (503 thousand RON) sized below the deductibility level provided in the Fiscal Code;
 - Advertising and promotion expenses (408 thousand RON) consider the increase of the degree of understanding and accepting nuclear energy internally and internationally, maintaining a positive image of SNN, counteracting actions with negative impact on the development of the national energy program, promoting the project for building Units 3 and 4 at Cernavoda, etc.;
- **Sponsorship expenses (line 57) – 10,856 thousand RON**, provided at a higher level than 2018, according to the deductibility level provided in the Fiscal Code. These expenses are granted by complying with the provisions of Law no. 32/1994 on sponsorships, as further amended and supplemented, with the express approval of the Board of Directors, and the actions for which sponsorship is granted are presented for information in the GAS; this increase is based on the objective assumed by the Board of Directors and the Managers and set by the Ministry of Energy and shareholders by the letter of expectations which refers to the responsible and active involvement in social corporate responsibility actions. Thus, the company proposes the involvement in social responsibility actions at local and national level mainly in the following fields: education, health and environment. We emphasize the fact that these expenses shall be deducted from the income tax according to the provisions of the Fiscal Code.
- **Expenses with the transportation of goods and persons (line 62) – 4,312 thousand RON**, representing expenses with the transportation of persons and commodities, maintained at the level of 2018;

Expenses with travels, secondments, transfers (line 63) – 3,417 thousand RON, are slightly higher than the value achieved in 2018, following the increase of the necessities regarding the travels of personnel in the country and abroad;

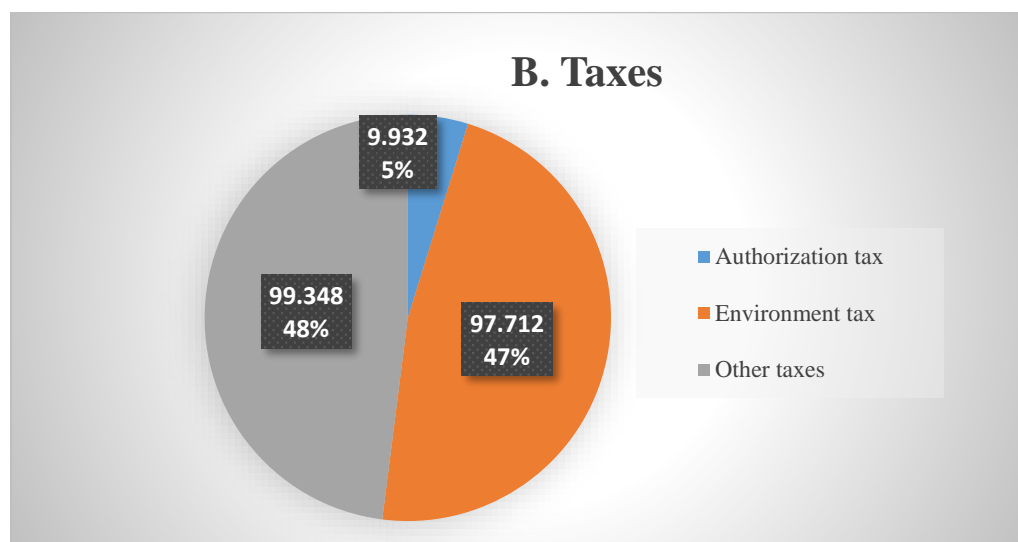
- **Postal expenses and telecommunications taxes (line 67) estimated at 832 thousand RON**, comprising expenses estimated for telephony and internet services, higher than the level of 2018, according to the necessary activity level and according to the modifications of the fees for landline telephony, mobile telephony and data services;
- **Expenses with banking and assimilated services (line 68) estimated at 632 thousand RON**, comprising estimated expenses for bank commissions, 14% higher than the level of 2018, following the increase of bank services requested by SNN, mainly for obtaining letters of bank guarantee (performance bonds and payment securities) for electricity sale-purchase contracts;

- **Other expenses with services provided by third parties (line 69) – 30,584 thousand RON**, of which:
 - a) **Insurance and security expenses (7,236 thousand RON)** comprising services of insuring and securing the units and personnel, and the level budgeted for 2019 is correlated with the necessities of this period;
 - b) **Expenses on the maintenance and operation of computing technology (20,546 thousand RON)**, comprising expenses with the maintenance of workstations, servers and HP equipment, the database management systems, and new IT equipment following the expansion and modernization of the computer network. The estimated increase for 2019, 29% higher than 2018, is caused by the increase of expenses with technical support for licenses, services which were not contracted for the entire year 2018;
 - c) **Expenses with professional training of 2,470 thousand RON.** The level of these expenses is determined by the necessity of training the personnel, including the management/coordination, operation, maintenance and technical personnel by experts from external specialized organizations, as well as training the newly hired operating personnel according to the mandatory training program. The increase is estimated following the necessity of training the newly hired personnel, and the personnel hired for support services (purchases, economic, etc.);
 - d) **Expenses with announcements for tender procedures and other announcements (197 thousand RON)** are estimated based on the annual values from the contracts concluded with the mass media;
- **Other expenses (line 78) – 93,542 thousand RON**, comprising other operation services, and services for managing radioactive waste, non-radioactive waste and decontamination waste, technical assistance, maintenance of the heating system, the hydrological circuit, cleaning the technological and administrative premises, maintenance of the storage premises, services provided by specialized nuclear organizations regarding the development of common programs.

These expenses are 54% higher than the level achieved in 2018, but 4% lower than the level budgeted for the previous year. The 54% increase in this chapter is caused by the additional requirements for engineering services for drafting the earthquake response plan of CNE Cernavoda branch and the program manual of the response plan, technical support services for defining the technical operation limits and conditions (“SOE”), services related to the decommissioning of the STA equipment for expansion, maintenance and repair services of the buildings within the accommodation complex of the CNE Cernavoda Branch and other necessary services in 2019. There are also technical assistance services that were not provided in 2018 because of the delays in the procurement process and services of drawing management, document control and archiving, typing, which were performed in 2018 based on real necessities, and that is why the necessary services in 2019 are higher than those of 2018.

B. Expenses with taxes, duties and assimilated payments of 206,993 thousand RON (+26%) comprising expenses with the authorization tax, the environment tax and other taxes and duties (including the ANRE), according to the details below and the representation from the following chart.

Indicators	Row no.	Provisions for the previous year 2018		Proposals for the current year 2019	%	%
		Approved according to OGAS no. 3/March 02, 2018	Achieved 2018			
0	1	2	3	4	5=4/2	6=4/3
B. Expenses with taxes, duties and similar payments, of which:	79	154,349	164,122	206.993	134%	126%
a) Expenses with the tax for the activity of operating mineral resources	80	-	-	-	-	-
b) Expenses with the royalty for the concession of public assets and mineral resources	81	-	-	-	-	-
c) Expenses with the license tax	82	-	-	-	-	-
d) Expenses with the authorization tax	83	9.941	9.937	9.932	100%	100%
e) Expenses with the environment tax	84	98.531	97.357	97.712	99%	100%
f) Expenses with other taxes and duties	85	45.877	56.828	99.348	217%	175%

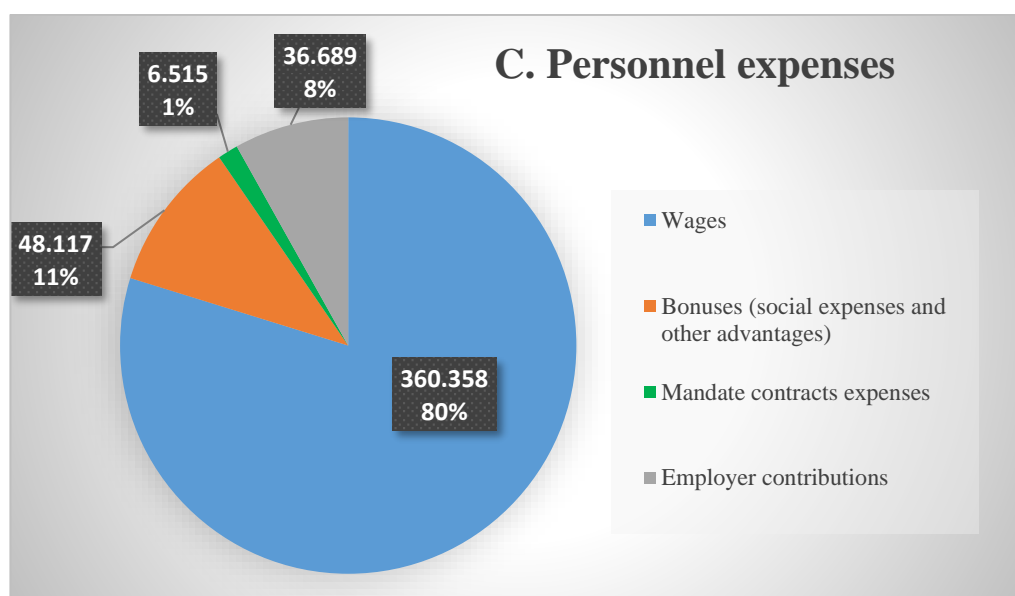


- The expenses with the authorization tax represent **CNCAN taxes and fees** for nuclear security, of **9,932 thousand RON**.
- Expenses with the **environment tax - 97,712 thousand RON**, represents the tax for decommissioning the nuclear units and for the final storage of the radioactive waste representing the contribution of the company to the decommissioning plan by transferring to **ANDR 2 EUR/MWh** net product, according to the legislation in the field: permanent storage of radioactive waste - 1.4 EUR/MWh of net energy produced and delivered in the system and for the decommissioning of nuclear units - 0.6 EUR/MWh of net energy produced and delivered in the system. This tax is set in the EUR foreign currency, while its equivalent value is paid in RON, so the budgeted value for 2019 is considered prudentially, in order to cover any exchange rate differences.
- Expenses with other taxes and duties of **99,348 thousand RON**; the main taxes and duties are:
 - o **Local taxes of 56,629 thousand RON**. According to the change, in 2017, of the manner of applying the Interpretation of the Financial Reporting Standards "IFRIC 21" *Taxes*, according to

the explanatory notes included in the financial statements, the tax on buildings, lands and machinery payable for 2019 is reflected in the performance of the year 2018, in December, and respectively the one payable for 2020, was budgeted in December 2019. When estimating these expenses, we took into consideration the new increased rates approved by the Local Councils for the calculation of local taxes and the new value of the lands, buildings and constructions owned by the Company, as a result of their revaluation on December 31, 2018 by an independent valuator, S.C. Primoval SRL, a member of the National Association of Authorized Valuers of Romania ("ANEVAR").

- **ANRE tax of 42,595 thousand RON**, representing the contribution estimated to be paid in 2019 by the Company to ANRE. According to the Government Emergency Ordinance no. 114/2018, the percentage of this tax was increased from 0.1% to 2% from the turnover, and caused an increase of approximately 1.8 million RON to 42.6 million RON.

C. Personnel expenses of 451,679 thousand RON (+ 15% vs. achieved 2018, + 5% vs. budgeted 2018) comprising: expenses with salaries, bonuses, other personnel expenses, expenses related to the mandate contract and other management and control bodies, commissions and committees, and expenses with social security and social protection, special funds and other legal obligations. These expenses are detailed below and represented in the following chart.



INDICATORS	Row no.	Provisions for 2018		Proposal for BVC 2019	%	
		Approved according to OGAS no. 3/March 02, 2018	Achieved 2018		5=4/2	6=4/3
0	1	2	3	4	5	6
C. Personnel expenses (L.87+L.100+L.104+L.113)	86	428.509	394.399	451.679	105%	115%
C0 Salary expenses (L.88+L.92)	87	389.311	360.601	408.475	105%	113%
C1 Salary expenses (L.89+L.90+L.91)	88	351.926	330.445	360.358	102%	109%
C2 Bonuses (L.93+L.96+L.97+L.98+ L.99)	92	37.385	30.157	48.117	129%	160%
C3 Other personnel expenses (L.101+L.102+L.103)	100	1.606	1.200	-	-100%	-100%
C4 Expenses related to the mandate contract and other management and inspection bodies, commissions and committees (L.105+L.108+L.111+ L.112)	104	2.550	2.838	6.515	255%	230%
C5 Expenses with contributions payable by the employer	113	35.042	29.760	36.689	105%	123%

C0) Salary expenses of 408,475 thousand RON (+13% vs. achieved 2018, +5% vs. budgeted 2018) made of salary expenses (C1 – 360,358 thousand RON) and bonuses (C2 – 48,117 thousand RON), detailed below.

C1) Salary expenses of 360,358 thousand RON (+9% vs. achieved 2018, +2% vs. budgeted 2018)

In 2019, there was an increase of salary expenses, by complying with the provisions of art. 62 of Law no. 50/2019 *of the state budget for 2019*. Thus, for 2019, the economic operators that apply the provisions of art. 9 par. (1) let. (b) and par. (3) of Government Ordinance no. 26/2013 *regarding the strengthening of financial discipline at the level of certain economic operators in which the state or the administrative-territorial units are single or majority shareholders or directly or indirectly hold a majority interest*, as further amended and supplemented, **may provide, in the revenue and expense budget, the increase of salary expenses compared to the level planned in the last revenue and expense budget approved according to the legal provisions, as follows:**

- a) the economic operators that exceeded the level of the outstanding payments scheduled for the end of 2018 can increase salary expenses within the limit of increasing the gross average earnings per employee, which cannot exceed 80% of the index of increasing labor productivity calculated in value or physical units, as the case may be, provided the outstanding payments at the end of 2018 are reduced to 30%;
- b) the economic operators that do not exceed the level of outstanding payments scheduled for the end of 2018 may increase salary expenses provided that in 2019 they do not schedule outstanding payments, and if they plan to provide their reduction to the planned level of the previous year by at least the level of the average gross monthly earnings per employee increase, calculated according to par. (2).

SNN can provide in the revenue and expense budget for 2019 the increase of salary expenses compared to the level planned in the budget of 2018, by complying with the provisions of par. (1) let. (b) of art. 62 of Law 50/2019, as:

- by the revenue and expense budget of 2018, approved by the OGAS Resolution no. 3/2018, SNN provided a level of outstanding payments equal to 0, respectively made 0 outstanding payments in 2018, so it did not exceed the level of outstanding payments scheduled for the end of 2018;
- by this budget proposal, SNN does not schedule outstanding payments for 2019.

Thus, by fulfilling and complying with the conditions provided under let. (b), par. (1), art. 62 of Law 50/2019, SNN provides an increase of **salary expenses of 8,432 thousand RON** to the *level budgeted for 2018* (+2.4% increase compared to the level budgeted in the previous year), namely an increase of **29,913 thousand RON** in 2019 compared to *the level achieved in 2018*.

This increase is reflected in the basic salary expenses (line 89), the expenses with bonuses, premiums and other bonifications related to the basic salary (according to CCM) (line 90) and within other bonifications (according to CCM) (line 91) proportional to the granting estimates for 2019 of these categories of salary expenses.

When forecasting the number of employees for 2019, we considered:

- The planned modifications to the organizational structure and/or the number of jobs (for example: the development of the Investment Development Division responsible for the management of the negotiations for the Project of Units 3 and 4, the development of the

- structure dedicated to the refurbishment of Unit 1, setting up the independent evaluation group and the group for coordinating oversight activities in order to comply with the fundamental nuclear safety requirements and WANO and IAEA recommendations);
- Personnel outputs, especially as a result of retirement at the age limit and contribution period, including the termination of CIM for a specified period of time;
 - Planned personnel inputs;
 - Temporary occupancy of jobs, both as a result of the replacement of employees during the CIM suspension period, as well as for time-bound activities of refurbishment/investment projects, correlated with the stages planned to be implemented, starting from 2019.

In determining the increase in salary expenses, the increase in the seniority and fidelity bonus as a result of higher number of years and seniority in the case of the loyalty bonus were also taken into account in accordance with the provisions of the CCM as well as the establishment of a prize fund and a personnel promotion/advancement fund in order to increase the motivation and loyalty of the personnel.

Thus, the budgeted level for 2019 ensures the necessary salary expenses for the existing personnel, the personnel estimated to be employed by the end of the year, possible salary increases, promotions and advancements, and a prize fund.

The draft revenue and expense budget for the year 2019 provides 2,262 employees at the end of the year and an average number of 2,146 employees. Thus, compared to the personnel planned in the budget of 2018, namely 2,200 employees, for 2019, the company plans the increase of the actual number of employees by 62 jobs. In 2018, the personnel recruitment process took place under good conditions, but it did not reach the maximum level planned in the 2018 budget. The need to recruit and hire persists in 2019, from the same considerations as in the previous year. These considerations are mainly focused on compensating for the loss of expertise because of natural personnel retirement, the need for specialized personnel for priority investment projects and voluntary departures. The efforts of the company will continue to focus on attracting young specialists, training and qualifying them, at the same time with the continued development of the quality of existing human capital.

In this context, we estimate that the decision to increase salary costs by approximately 30 million lei compared to the level achieved in 2018, and only by approximately 8.4 million lei compared to the level budgeted for 2018, will contribute to the long-term sustainability of the operation of the nuclear power plant, while ensuring a profitability at Nuclearelectrica level of over 350 million lei for the year 2019.

The specific legislation applicable to SNN, namely Law no. 111/1996 *on the safe performance, regulation, authorization and control of nuclear activities* (whose powers of regulation, authorization and control are exercised by CNCAN) stipulates under art. 18 paragraph (1) the following:

“The authorizations stipulated under art. 8 shall be issued only if the applicant for the authorization fulfills the following conditions, as the case may be:

c) is able to demonstrate that it has the human and financial resources, the technical equipment, the technologies and the material means necessary for carrying out the activities”

It is applicable both for obtaining the authorization and for maintaining it; under these conditions, in order to maintain the operation authorization, which allows the operation of the nuclear units, SNN must demonstrate at all times to the regulator, CNCAN, that it has the human and financial resources, the technical equipment, the technologies and the material means necessary for carrying out its activities.

The availability regarding the human resources can be demonstrated as follows:

- There is a sufficient number of personnel in order to operate the unit safely;
- The personnel is paid enough to focus on operation and not on the salary level;
- The personnel is continuously trained;
- There are succession plans;
- The quality of the human resources is ensured.

As it results from the specific legislation and the CNCAN norms regarding the authorization of the operation, an important factor in the safe operation of a nuclear power plant is the optimal assurance of the human resources from a numerical, qualitative and motivational point of view.

Thus, based on:

- a salary budget with modest annual increases prior to 2018,
- the recruitment of highly experienced personnel by other nuclear power plant operators outside the country,
- legislation favorable for retirement,
- the increase of the average age of employees which needs to be approached in advance by attracting young personnel and adequately training them (average age in 2018: 46),
- the limited capacity to attract young personnel, with all the efforts and actions intensified in the year 2018 to attract and recruit, given that there is a competitive environment from private companies present in Romania, both SNN production units (the Cernavoda Power Plant and the Nuclear Fuel Plant of Pitesti) experienced in the previous years a significant increase of personnel departures, which could not be fully compensated by recruiting new employees and their proper training, given that the personnel specialized in the operation of a nuclear power plant would need several years of training before they can work independently.

The aging workforce needs to be countered by early employment programs and personnel training, as well as personnel incentive programs, in order to avoid early retirement and to keep active specialists for the company, by detaching the salary level from the pension level, so the difference between them is sufficient to keep the most experienced personnel working.

Also, key positions should be remunerated with variable performance-based remuneration schemes that require additional resources, but are essential to the company retention programs.

SNN is the only operator of nuclear power plants in Romania, which causes a high degree of difficulty in finding substitutes in key positions, given the existence of competition in other similar projects that developed in other countries. Even if the number of these key positions is not high, they are vital in terms of the necessary expertise and quality of work.

The duration of training for the various specialists is high, and for the retention for a long period of time it is necessary to provide benefits and to develop a clear career path that should include advancements/promotions. Without these, the demotivation of the personnel is imminent.

At the same time, increasing operational performance must be rewarded (the duration of planned outages is below the number of budgeted days, the number of unplanned outage hours is continuously decreasing from one year to the next, Units 1 and 2 are ranked no. 1 in the world based on the combined factor use of using the production capacity since commissioning).

In order to preserve economic efficiency, and to increase labor productivity (from 979 thousand RON/person in 2017 and 1,089 thousand RON/person in 2018, to 1,111 thousand RON/person

budgeted for 2019), SNN proposed both for the year 2018, and for 2019, salary increases without a significant impact in gaining an increase in the financial performance.

The motivation of the workforce by the salary factor has been identified as necessary in order to ensure in the future comparable operational performances, as well as to reduce personnel fluctuations, especially from key critical areas.

C2) Bonuses amounting to 48,117 thousand RON

This subchapter provided the following expenses:

- social expenses (line 93) of 18,018 thousand RON, estimated within the limit of a 5% quota applied to the value of personnel salary expenses, within the limit of the deductibility of these expenses according to Law no. 227/2015 *regarding the Fiscal Code*.
- meal vouchers (line 06) - 574 thousand RON; according to the Collective Employment Contract, SNN grants employees meal vouchers at the maximum value stipulated by law. According to the provisions of Order no. 1618/2018 of the Ministry of Labor and Social Justice, SNN increased the value of the meal voucher to 15.18 RON, starting with May 2018. For the year 2019, according to the provisions of Law no. 165/2018, the maximum value of a meal voucher was maintained at 15.18 RON/voucher;
- holiday vouchers (line 97) of 4,705 thousand RON (2,080 RON/employee, for a maximum estimated number of 2,262 employees), according to the legal provisions. The current CCM provides for the possibility of granting vacation vouchers, depending on the financial possibilities of the company;
- expenses related to the participation of the employees in the profit obtained by the Company in the previous year (line 98) - 16,000 thousand RON, according to the level approved in BVC for 2018, in compliance with the legal provisions;
- expenses on in kind advantages granted to employees (electricity and thermal energy, rents for company-provided apartments) (line 99) - budgeted in the amount of 8,820 thousand RON.

Thus, in Chapter C2 Bonuses, an increase of 17,960 thousand RON is estimated, compared to the level achieved in 2018, namely 10,732 thousand RON compared to the level budgeted for 2018.

Expenses on bonuses (Chapter C2) are included in salary costs (C0).

C3) Other personnel expenses - this subchapter provides for compensatory payments related to personnel redundancies, expenses with salary rights applicable based on court rulings and salary expenses related to restructuring, privatization, receivers, other commissions and committees. In 2019, no amounts are provided for this chapter.

In the performance of the year 2018 the expenses with the compensation of the Negotiation Commission and the Technical Secretariat for the implementation of the Project for Units 3 and 4 of CNE Cernavoda, "Green/Brown Field", by incorporating an IPP company, according to the provisions of Resolution no. 122 of the Board of Directors of SN Nuclearelectrica SA dated 22.08.2014.

C4) Expenses related to the mandate contract and other management and inspection bodies, commissions and committees of 6,515 thousand RON

INDICATORS	Row no.	Provisions for 2018			%	
		Approved according to OGAS no. 3/March 02, 2018	Achieved 2018	Proposal for BVC 2019	5=4/2	6=4/3
0	1	2	3	4	5	6
C4 Expenses related to the mandate contract and other management and inspection bodies, commissions and committees (L.105+L.108+L.111+ L.112), of which:	104	2.550	2.838	6.515	255%	230%
a) for managers/management	105	1.595	1.933	4.884	306%	253%
- fixed component	106	1.595	1.685	1.400	88%	83%
- variable component	107	-	248	3.484	100%	1405%
b) for the Board of Directors/Supervision Board, of which:	108	955	905	1.632	171%	180%
- fixed component	109	955	905	816	85%	90%
- variable component	110	-	-	816	100%	100%
c) for GAS and auditors	111	-	-	-	0%	0%
d) for other commissions and committees created according to the law	112	-	-	-	0%	0%

When ascertaining the level of expenses related to the mandate contracts, the following aspects were considered:

- Resolution of the Ordinary General Meeting of Shareholders 3/10.04.2019 deciding:
 - Approval of the financial and non-financial performance indicators that will form the annex to the mandate contract of non-executive directors
 - Approval of the equivalent value corresponding to the annual variable component of the remuneration of non-executive directors of the company, amounting to 12 monthly fixed allowances
 - Approval of the form of the addendum to be concluded to the mandate contract of the company's non-executive directors
 - Approval of the financial and non-financial performance indicators that will form the annex to the mandate contract of executive directors
 - Approval of the form of the addendum to be concluded to the mandate contract of the company's executive directors
 - Approval of the general limits of the remuneration of the executive manager:
 - Monthly fixed allowance, 5-6 times the average of the last 12 months of the monthly gross average wage for the activity developed according to the main object of activity registered by the Company, at the class level according to the classification of activities from the national economy, communicated by the National Statistics Institute prior to the appointment;
 - Annual variable component, 24-36 times the annual variable component, in an amount between 24- 36 times the average of the monthly gross salary earnings for the activity performed according to the main scope of business registered by the company, at class level, according to the national classification of economic activities, communicated by the National Institute of Statistics prior to appointment.
- Board resolution no. 54/10.04.2019, deciding:
 - Approval of the financial and non-financial performance indicators that will form the annex to the mandate contract of managers
 - Approval of the equivalent value corresponding to the annual variable component of the remuneration of the managers of the company, amounting to 36 monthly gross fixed allowances
- Provisions of art. 37, 38 and 39 of GEO 109/2011 on corporate governance of public companies and the provisions of GR 722/2016 for approving the methodological norms for the application of provisions from Emergency Government Ordinance no. 109/2011.

A. Mandate contracts with the managers (line 105) – 4,884 thousand RON

For 2019, expenses were provided related to the mandate contracts concluded by the Company with the executive managers of 4,884 thousand RON.

Pursuant to art. 143 paragraph 1 of Law 31/1990 on companies, the Board of Directors can delegate the management of the company to one or more Directors, naming one of them Chief Executive Officer. At the same time, art. 143 paragraph 4 of the same law stipulates that, in case of joint-stock company whose annual financial statements are subject to a legal obligation of financial audit, mandating the managers of the company is mandatory. Pursuant to the provisions of art. 21 par. 1 from the articles of incorporation of SNN, the Board of Directors delegates the management of the company to one or more Directors, naming one of them Chief Executive Officer. Considering that SNN classifies as a company whose financial statements are subject to the legal obligation of financial audit, there is the legal obligation for the Board of Directors to delegate the management of the company. Likewise, art. 35 par. 1 of GEO no. 109/2011 *on the Corporate Governance of Public Companies* establishes that, in the case of companies managed under the unitary system, the Board of Directors delegates the management of the company to one or more managers, and appoints one of them as Chief Executive Officer. The managers to whom the Board of Directors delegates the management must be selected according to the provisions of GEO no. 109/2011.

In 2018 and early 2019, the selection of directors and managers was carried out in accordance with the provisions of GEO no. 109/2011 and GR no. 722/2016 for the approval of the methodological norms for the application of this law, finalized with the selection of the members of the board of directors and the managers with a mandate contract.

Following this selection, the company appointed each member of the board of directors, non-executive and executive members, as well as the general manager, deputy general manager and financial manager, a mandate contract for a period of 4 years. The financial, operational, and corporate governance performance indicators are attached to each mandate contract and are an integral part thereof.

In the first part of 2019, the Company had an executive management consisting of a Chief Executive Officer, two deputy Chief Executive Officers and a Chief Financial Officer with provisional mandate contracts. Starting with February 11, 2019, four-year term contracts were signed with the Chief Executive Officer, a deputy Chief Executive Officer and the Chief Financial Officer.

The variable indemnity provided by the managers' mandate contracts is conditioned by the fulfillment of the performance indicators established by the mandate contracts and approved by the resolution of the Board of Directors no. 54/10.04.2019. For these indicators, annual targets were set for all four years of the mandate. These targets are correlated with the administration plan of the Board of Directors, which includes the management component approved by the BoD resolution no. 33/07.03.2019, according to the provisions of art. 30 paragraph (1) of GEO no. 109/2011 and the provisions of art. 36 paragraph (1) of GEO 109/2011.

Thus, for the year 2019, fixed and variable indemnities were provided for the managers with mandate contracts, as follows:

a) the fixed component of the managers with mandate contract (line 106) - 1,400 thousand RON

The monthly gross fixed indemnities for the managers, stipulated in the mandate contracts signed by the Company with them, both those from the temporary contracts and those from the 4-year

contracts, are established in compliance with the provisions of art. 38 of GEO no. 109/2011, respectively:

- par. (1): "The remuneration of managers shall be established by the board of directors and may not exceed the level of remuneration established for the executive members of the board of directors. This is the sole form of remuneration for the managers who also fulfil the role of directors.";

- paragraph (2): "the remuneration shall consist of a monthly fixed indemnity established within the limits provided in art. 37 paragraph (3) and a variable component consisting of a share in the net profit of the company, the granting of shares, stock options or an equivalent scheme, a pension scheme or other form of remuneration based on performance indicators".

Art. 37 par. (3) of GEO 109/2011 provides: "The fixed allowance of the executive members of the executive members of the BoD (...) is made up of a fixed monthly compensation which cannot exceed 6 times the average of the last 12 months of the monthly gross average wage for the activity developed according to the main object of activity registered by the Company, at the class level according to the classification of activities from the national economy, communicated by the National Statistics Institute prior to the appointment and a variable component. The variable component shall be based on financial and non-financial performance indicators, negotiated and approved by the general meeting of shareholders, different to those approved for the non-executive directors, determined in compliance with the methodology (...)"

The gross monthly fixed indemnity of the General Manager is within these limits, and the fixed gross monthly indemnities of the Deputy General Manager and the Financial Manager are below this value, by complying with the applicable legal framework.

According to the contractual provisions, the monthly fixed indemnity is paid to the managers with mandate contracts on the last day of the month for which it is due.

b) the variable component of the managers with mandate contract (line 107) - 3,484 thousand RON

When determining the level of the variable indemnity, we took into consideration the provisions of art. 37 and 38 of GEO no. 109/2011 and the provisions of GR no. 722/2016, the resolution of GAS no. 3/10.04.2019 and BoD resolution no. 54/10.04.2019 stipulating that for the Managers, the variable annual component of the indemnity is 36 monthly gross fixed indemnities, namely **3,484 thousand RON**.

SNN applies the provisions of OMFP 2844/2016 regarding the approval of the accounting regulations compliant with the International Financial Reporting Standards (IFRS). As per the OMFP 2844/2016, the International Financial Reporting Standards represent the standards adopted in accordance with the procedure provided by the European Commission Regulation no. 1606/2002 of the European Parliament and of the Council dated on 19 July 2002 regarding the application of the international accounting standards.

According to par. (1) art. 128 of Section 3: 9.3. *Third Parties Chapter 9 Provisions regarding the accounting for operations* in OMFP 2844/2016: "The amounts due and unpaid to the personnel (leave and other personnel rights), or any amounts to be recovered from it, related to the current exercise, are recorded as other debts and receivables related to the personnel".

The International Accounting Standard IAS 19 *Employee Benefits* defines short-term employee

benefits as those benefits (other than termination benefits) that are expected to be fully paid within twelve months after the end of the annual reporting period in which the employees provide the respective service, recognized as a debt and as an expense.

Thus, the variable component of the managers' remuneration for the year 2019 is reflected in line 107 expenses with the variable component of the mandate contracts concluded with the managers from chapter C Personnel expenses, Annex 2 of the BVC proposal 2019.

B. Administrative contracts concluded with the directors (line 108) - 1,632 thousand RON

For the year 2019, expenses were provided related to the administration contracts concluded by the Company with the members of the Board of Directors amounting to 1,632 thousand RON.

The Company has concluded 7 administration contracts for a period of 4 years, each starting with 28.09.2018, according to the GAS Resolution no.12/28.09.2018, of which an executive director, who also holds the position of Chief Executive Officer. For the Executive Director, the only remuneration to be granted is that of Chief Executive Officer (see paragraph A. above), in accordance with the provisions of Art. 38 paragraph (1) of GEO 109/2011. The contractual period covers the entire year 2019 (12 months).

By Resolution no. 12/28.09.2018, GAS of SNN established the fixed gross monthly indemnity of the directors, according to the provisions of art. 37 par (1) and (2) of GEO 109/2011, equal to 2 times the average of the last 12 months of the monthly gross average wage for the activity developed according to the main object of activity registered by the Company, at the class level according to the classification of activities from the national economy, communicated by the National Statistics Institute prior to the appointment.

By resolution no. 3/10.04.2019 the GAS of SNN set the equivalent value corresponding to the annual variable component of the executive directors in value of 12 monthly fixed allowances.

Thus, for the year 2019, fixed and variable indemnities were provided for the directors with mandate contracts, as follows:

- a) **the fixed component of the administration contracts (line 109) - 816 thousand RON**, calculated as twice the average of the monthly gross monthly earnings for the last 12 months for the activity carried out according to the main scope of activity registered by the company (according to the resolution of the GAS No. 12/28.09.2018)

According to the contractual provisions, the monthly fixed indemnity is paid to the directors with mandate contracts on the last day of the month for which it is due, irrespective of the number of meetings in that month.

- b) **the variable component of the administration contracts (line 110) - 816 thousand RON**, according to the GAS resolution no. 3/10.04.2019 and determined according to the provisions of art. 37 paragraph (2) of GEO no. 109/2011, which stipulates that the level of the variable component of the non-executive members cannot exceed a maximum of 12 monthly fixed indemnities, respectively the maximum fixed indemnity calculated for the entire year 2019, namely 816 thousand RON.

Similarly to the variable component of the mandate contracts concluded by the Company with the managers, for the reasons listed in letter A.b) above, the variable component of the administration contracts is reflected in line 110 of Chapter C Personnel Expenses, Annex 2 of the BVC proposal 2019.

The estimates for 2020 and 2021 of Annex 1, for the entire chapter C4 Expenses related to the mandate contract and other control authorities, commissions and committees are determined by considering the fixed and variable compensations detailed above, fully for 12 months of every year, namely 6,841 thousand RON

C5) Expenses with contributions payable by the employer of 36,689 thousand RON.

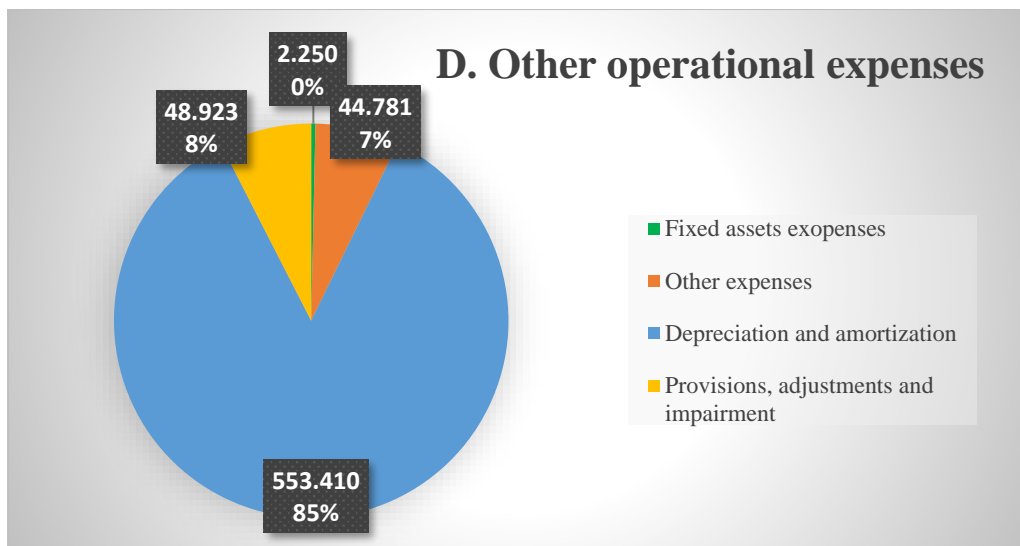
This subchapter provides expenses on:

- the mandatory work contribution;
- the social insurance contribution due by the employer for the employees who work under special and difficult working conditions;
- the contribution for people with disabilities not engaged in work;
- the contribution of the unit to the voluntary pension funds.

Thus, as a result of the application of the legal provisions, the expenses with the contributions due by the employer are set at the level of 36,689 thousand RON, respectively 5% higher than the level budgeted in 2018, according to the increases estimated for 2019 to the application basis of the percentages of the contributions.

D. Other operating expenses amounting to **649,424 thousand RON** (+ 4%) comprise: expenses on fixed assets, amortization expense for tangible and intangible assets, adjustments and impairments for value losses and provisions (the provision for intermediate storage costs for burned fuel, the provision for radioactive and non-radioactive waste, the pension provision, the provision for the employees' participation in the profit) and other expenses (annual contributions to governmental and non-governmental organizations, the equivalent of electricity for the balanced market, etc.).

Indicators	Row no.	Provisions for the previous year 2018		Proposals for the current year 2019	%	%
		Approved according to OGAS no. 3/March 02, 2018	Achieved 2018			
0	1	2	3	4	5=4/2	6=4/3
D. Other operational expenses, of which:	114	547.550	626.089	649.424	119%	104%
a) Expenses with increases and penalties	115	100	15	60	60%	391%
b) Expenses regarding assets	118	2.250	2.756	2.250	100%	82%
c) Expenses related to transfers for personnel payments	119	-	-	-	-	-
d) Other expenses	120	48.225	30.004	44.781	93%	149%
e) Expenses with the amortization of tangible and intangible assets	121	500.800	544.521	553.410	111	102%
f) Adjustments and impairments for value losses and provisions	122	(3.825)	48.792	48.923	(1.279%)	100%



The significant weight in this category of expenses is represented by **expenses regarding the amortization of tangible and intangible assets (rd. 121) - 553,410 thousand RON**, respectively 85%. This expense category shows an estimated increase of +2% given the estimated level of expenses with the amortization correlated with the investments made in previous years with commissioning in 2018 and estimates for 2019.

Chapter D also includes a number of other non-monetary expenses, in particular provisions and adjustments and impairments for value losses (both constitutions and resumptions), so their evolution is influenced by the necessity to constitute or resume them for the compliance with the financial reporting standards.

Adjustments and impairments for value losses and provisions (line 122), amounting to **48,923 thousand RON**, is determined by netting the expenses with adjustments, impairments and provisions of 92,546 thousand RON and the revenues from the resumption of adjustments, impairments and provisions of 43,623 thousand RON.

Expenses estimated at the level of 92,546 thousand RON include:

- provision for the costs of managing low and medium radioactive and non-radioactive waste (11,309 thousand RON);
- provision for the costs of intermediate burnt fuel storage in DICA modules - DICA Modules 13 and 14 (9,800 thousand RON);
- value adjustment representing the value de-recognition for the portion of DICA 9 and 10 modules expected to be filled with nuclear fuel bundles to be consumed in 2019 (10,700 thousand RON);
- estimating the provision for pensions and other obligations, according to the annual actuarial report (6,000 thousand RON);
- provision for litigations opened by trade unions regarding salary bonuses (34,937 thousand RON);
- provision for the participation of employees in the profit for the year 2019 (18,700 thousand RON), estimated with the compliance with the legal provisions.

Revenues from the cancellation or resumption of adjustments, impairments and provisions totaling 43,623 thousand RON comprising mainly:

- the cancellation of the provision for low and medium radioactive and non-radioactive waste (15,823 thousand RON) insofar as they are managed;

- the cancellation of the provision for the costs of the intermediary storage of burnt fuel - DICA 9 and 10 modules (10,700 thousand RON), insofar as they were filled with burnt fuel bundles in 2019;
- the cancellation of the provision regarding the participation of the employees in the profit of 2018 (16,000 thousand RON).

The provision for the employees' participation in the profit for 2019 is calculated at the maximum level provided by the law, namely "no more than the level of a monthly basic average salary obtained on the level of the economic operator in the reference financial year".

Estimates of the provision for pensions and other obligations amounting to 6,000 thousand RON including the estimated provision for employees' retirement benefits in the form of a share of 1,200 kWh/year of electricity, in accordance with CCM SNN provisions for the period 2018-2020. The value of the update will be based on the actuarial report made by the actuary employed by SNN and the provision for other employee benefits under CCM SNN/2018.

The effective settlement of retirement aids for the share of electricity will be made from the Social Expense Fund.

Other operational expenses (line 120) of Chapter D in amount of **44,781 thousand RON**, represents mainly the equivalent of the daily imbalances estimated for 2019 prudentially at the level of 38,064 thousand RON, taking into account the level achieved in 2018; other expenses in this category are: the equivalent of the electricity settled for pensioners based on the normative acts, expenses with the decommissioning of current assets and taxes on the affiliation of the Company to specialized organizations, especially from the nuclear industry.

2. In the substantiation of **financial expenses** in amount of **78,590 thousand RON** (+34% vs. 2018, + 15% vs. budgeted 2018) the expenses with interest rates and commissions maturing in 2019, the exchange rate differences on external loans contracted for the implementation and commissioning of Unit 2 of CNE Cernavoda, as well as other financial expenses, were considered. The expenses on exchange rate fluctuations can only be estimated, but their level in the performance is influenced by the impact of the unfavorable exchange rate differences realized and unrealized, uncontrolled by the Company.

Within these expenses we included the amount of 5,417 thousand RON representing expenses for the non-reimbursement risk for the contracted credits for the implementation and commissioning of Unit 2 of CNE Cernavoda paid on the first draw from the credits and which is amortized during the repayment period.

III. GROSS RESULT

For 2019, based on the forecasted revenues and expenses, a **gross profit of 447,161 thousand RON is obtained**, 22.2% higher than the one budgeted for 2018.

The proposal of the revenue and expense budget for 2019 provides for the distribution of 90% of the distributable accounting profit to the shareholders, in compliance with the provisions of GEO no. 64/2001, above the minimum level of 50% established by this ordinance.

The gross profit level is determined by the cumulative operating profit and the budgeted financial result. **The operating profit** is estimated at **445,570 thousand RON** (+23% vs. budgeted 2018), and **the financial result** is estimated at the level of **1,590 thousand RON**, half the level budgeted

for 2018, and significantly lower than the achieved level in 2018, as a result of the expected level of interest rates and the expected monetary market conditions in 2019.

The main factors with significant impact in determining the operating profit in the sense of influencing operating revenues are the estimated sales prices for electricity, and in the sense of influencing the operating expenses, they are estimated at a level sufficient to achieve the activity of the Company, under conditions of ensuring nuclear safety and maintaining a certain level of the amount of electricity available to comply with the electricity sale contracts. Also, the expense level is influenced by the necessity of budgeting a quantity of energy to be purchased in the period of planned and unplanned outages, which causes a high level of “commodity expenses” at least to the budgeted level, prudentially.

Another important determining factor is the provision of a level of expenses that allows for all scheduled repair and maintenance activities for the budgeted year, in accordance with the internal estimates due to the experience and expertise of the personnel qualified to carry out such repair and maintenance plans, and in accordance with applicable regulations and compliance requirements. At the same time, the budgeting exercise takes into account the needs related to the basic activity, which is carried out in order to support it and without which the proper development of the activity is hindered.

IV. INCOME TAX

The income tax expenses (97,120 thousand RON) were determined in accordance with the provisions of the Fiscal Code. The estimates of non-deductible tax expenses and the non-taxable revenues in the calculation of the income tax for the year 2019 were made taking into account the achievements of 2018.

Non-deductible expenses (225,871 thousand RON) comprise mainly the amounts representing the surplus from revaluation under reserves, the amount of spare parts scrap, the amount of the provision for the intermediate storage of the burnt fuel, the amount of the provision for radioactive and non-radioactive waste, the value of the provision for the employee benefits, the value of the sponsorships, and the amount of the employees’ participation in the profit.

Non-taxable revenues (66,031 thousand RON) comprises mainly revenues from provisioning.

V. SOURCES FOR FINANCING INVESTMENTS for 2019, in the amount of 553,410 thousand RON, are represented by own sources, respectively amortization and profit.

VI. INVESTMENT EXPENSES in 2019, in the amount of 256,548 thousand RON, to which the amount of 209,457 thousand RON is added, representing the reimbursement of the instalments related to the credits contracted for the implementation and commissioning of Unit 2, maturing in 2019, resulting in a total investment program of 466,005 thousand RON, were sized according to the investment objectives required in order to be achieved and foreseen in the strategic programs of the Company, structured as follows:

- the amount of 5,281 thousand RON representing the investment program of SNN Headquarters, out of which: 3,665 thousand RON representing studies for the extension of the life cycle of Unit 1 by re-tubing the reactor and refurbishing the main systems;

- the amount of 237,070 thousand RON representing the equivalent value of the investment program of CNE Cernavoda;
- the amount of 14,198 thousand RON representing the equivalent value of the investment program of FCN Pitesti branch.

The investments and payment of the debt service are to be financed from profit and amortization.

Depending on the manner of implementing investments, reallocations can be made between various investment projects, by complying with the total investment expenses approved and respectively the existing financing sources. Also, during the year there can be new necessities for investment expenses, unforeseen, which can be financed within the limit of the existing financing sources.

The investment program is detailed in Annex 4 of the Revenue and Expense Budget for 2019, by detailing the fittings in Annex 4.1.

VII. Other substantiation data regarding the Revenue and Expense Budget for 2019

When the proposal for the Revenue and Expense Budget for 2019 was drafted:

- The management of the Company is made of 3 members with 4-year mandate contracts (Mr. Cosmin Ghita appointed as Chief Executive Officer by BoD Resolution no. 2/04.02.2019, Mr. Dan Laurentiu Tudor appointed as Deputy Chief Executive Officer by BoD Resolution no. 3/04.02.2019 and Mr. Adrian Gabriel Dumitriu appointed as Chief Financial Officer by BoD resolution no. 3/04.02.2019);
- The Board of Directors of the Company is made up of 7 members (Mr. Iulian – Robert Tudorache, Mr. Cosmin Ghita, Mr. Dumitru Remus Vulpescu, Mr. Cristian Gentea, Mrs. Elena Popescu, Mr. Cristian Dima and Mr. Mihai Daniel Anitei) with 4-year mandate contracts, appointed by Resolution 12/28.09.2018 of the General Assembly of Shareholders of SNN.

The estimates of the indicators for 2020 and 2021 are linear (except for Annex 4 - Program of investments and expenses with mandate contracts for the managers of the company Chapter C4 Annex 1, detailed at the end of chapter C above), starting from the level of the indicators budgeted for 2019, indexed with the inflation level published by the National Statistics Institute in “Forecast for 2018-2022 - Winter forecast 2019”, and the indicators detailed for the respective years shall be detailed and substantiated by the annual budgets of 2020 and 2021.

The substantiations of the Revenue and Expense Budget for 2019 were approved by the Financial Administration Inspection.

**Chief Executive Officer,
Cosmin Ghita**

**Chief Financial Officer,
Adrian Gabriel Dumitriu**

Annexes:

- Revenue and Expense Budget for 2019 and estimates for 2020 and 2021 (Annex no. 1);
- Details of the economic-financial indicators provided in the revenue and expense budget and their distribution by quarters (Annex no. 2);
- Total revenue achievement degree (Annex no. 3);
- Investment program (Annex no. 4);
- List of the “Fittings” position for 2019 (Annex no. 4.1);
- Measures for improving the gross result and reducing outstanding payments (Annex no. 5).