



FINANCIAL STATEMENTS

CONSOLIDATED

FOR THE YEAR CLOSED ON 31 DECEMBER 2014
PREPARED IN ACCORDANCE WITH IFRS

SC ELECTROMAGNETICA SA

SC ELECTROMAGNETICA SA
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR CLOSED ON 31 DECEMBER 2014
(all the amounts are expressed in RON, unless otherwise specified)

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S.C. ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR CLOSED ON 31 DECEMBER 2014
(all the amounts are expressed in RON, unless otherwise specified)

| | Note | 31 December 2014 | 31 December 2013 |
|--|------|--------------------|--------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Tangible assets | 4 | 216.201.059 | 221.268.180 |
| Investment property | 5 | 2.154.439 | 907.248 |
| Intangible assets | 6 | 1.728.797 | 720.163 |
| Other long-term non-current assets | 7 | 1.515.222 | 1.016.700 |
| Deferred tax assets | 20 | 258.124 | - |
| Total non-current assets | | 221.857.641 | 223.912.291 |
| Current assets | | | |
| Inventories | 8 | 16.354.495 | 15.916.227 |
| Trade receivables | 9 | 53.822.749 | 58.794.977 |
| Cash and cash equivalents | 12 | 31.449.749 | 15.818.377 |
| Financial assets at fair value through profit or loss | 11 | 224.000 | 1.250.953 |
| Other current assets | 10 | 6.354.272 | 3.683.703 |
| Current tax asset | 24 | 773.662 | - |
| Total current assets | | 108.978.927 | 95.464.237 |
| Total assets | | 330.836.568 | 319.376.528 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 13 | 67.603.870 | 67.603.870 |
| Reserves | 14 | 195.197.867 | 184.092.619 |
| Retained earnings | 15 | 9.146.067 | 15.729.103 |
| Other components of equity | | (1.127.303) | (1.404.363) |
| Total equity attributable to company shareholders | | 270.820.501 | 266.021.229 |
| Non-controlling interests | | 171.746 | 155.303 |
| Non-current liabilities | | | |
| Long-term loans | 16 | 1.232.014 | 1.407.752 |
| Deferred income | 17 | 7.271.123 | 7.055.548 |
| Deferred tax liabilities | 20 | 2.023.728 | 1.298.290 |
| Total non-current liabilities | | 10.526.865 | 9.761.590 |

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR CLOSED ON 31 DECEMBER 2014
(all the amounts are expressed in RON, unless otherwise specified)

| | | | |
|--------------------------------------|----|--------------------|--------------------|
| Current liabilities | | | |
| Trade payables and other liabilities | 19 | 47.529.859 | 41.192.619 |
| Deferred income | 17 | 578.097 | 1.033.571 |
| Provisions | 18 | 1.209.500 | 724.500 |
| Current tax liability | 24 | - | 487.716 |
| Total current liabilities | | 49.317.456 | 43.438.406 |
| Total liabilities | | 59.844.321 | 53.199.996 |
| Total equity and liabilities | | 330.836.568 | 319.376.528 |

These consolidated financial statements were approved for disclosure by the management on 26 March 2015.

Eugen Scheuşan
Chief Executive Officer

Ilie Frăşineanu
Chief Financial Officer

S.C. ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR CLOSED ON 31 DECEMBER 2014
(all amounts are expressed in RON, unless otherwise specified)

| | Note | 31 December 2014 | 31 December 2013 |
|--|------|--------------------|--------------------|
| Revenue | 21 | 428.024.142 | 400.808.764 |
| Other income | 21 | 8.503.696 | 8.200.552 |
| Variation in stocks of finished goods and work in progress | 21 | 9.261.518 | 3.890.089 |
| Work performed by entity and capitalised | 21 | 1.991.283 | 6.347.728 |
| Raw material and consumables used | 22 | (339.202.438) | (294.107.423) |
| Expenses related to employee benefits | 22 | (35.652.105) | (38.067.331) |
| Expenses related to depreciation and impairment | 22 | (10.557.463) | (10.195.068) |
| Other expenses | 22 | (53.239.094) | (57.353.034) |
| Profit before tax | | 9.129.539 | 19.524.277 |
| Current income tax expense | 24 | (1.342.245) | (3.262.334) |
| Deferred income tax expense | 20 | (205.689) | (114.225) |
| Profit for the period | | 7.581.605 | 16.147.718 |
| Attributable to parent | | 7.564.368 | 16.126.029 |
| Attributable to non-controlling interest | | 17.237 | 21.689 |
| Other components of comprehensive income: | | | |
| Revaluation surplus for tangible assets | | 278.030 | 2.947.811 |
| Deferred tax recognised in equity | | (44.486) | (494.555) |
| Comprehensive income for the period | | 7.815.149 | 18.600.974 |

Note: In accordance with IAS 33 "Earnings per share" the presentation of earnings per share has been made in the separated financial statements of the parent company.

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Chief Executive Officer

Ilie Frăsineanu
Chief Financial Officer

S.C ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR CLOSED ON 31 DECEMBER 2014
(all the amounts are expressed in RON, unless otherwise specified)

| | Share capital | Retained earnings | Revaluation reserve tangible assets | Other reserves | Legal reserve | Other equity items | Non-controlling interests | Total equity |
|--|-------------------|-------------------|-------------------------------------|-------------------|-------------------|--------------------|---------------------------|--------------------|
| Balance at 1 January 2014 | 67.603.870 | 15.729.103 | 85.125.480 | 42.398.257 | 56.568.882 | (1.404.363) | 155.303 | 266.176.532 |
| Total comprehensive income for the period | | | | | | | | |
| Profit or loss for the period | - | 7.564.368 | - | - | - | - | - | 7.564.368 |
| Other components of comprehensive income | | | | | | | | |
| The transfer of the revaluation reserve to retained earnings following the discard of revalued tangible assets | - | 2.238.507 | (2.238.507) | - | - | - | - | - |
| Tangible assets revaluation | - | - | 278.030 | - | - | (200.096) | - | 77.934 |
| Transactions with shareholders recognised directly in equity | | | | | | | | |
| Transfer of the retained earnings to reserves | - | (13.655.682) | - | 12.691.819 | 373.906 | 477.156 | 16.443 | (96.358) |
| Dividends distributed to shareholders | - | (2.725.421) | - | - | - | - | - | (2.725.421) |
| Retained earnings from correction of errors | - | (4.808) | - | - | - | - | - | (4.808) |
| Balance at 31 December 2014 | 67.603.870 | 9.146.067 | 83.165.003 | 55.090.076 | 56.942.788 | (1.127.303) | 171.746 | 270.992.247 |

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR CLOSED ON 31 DECEMBER 2014
(all the amounts are expressed in RON, unless otherwise specified)

| | Share capital | Retained earnings | Revaluation reserve tangible assets | Other reserves | Legal reserve | Other equity items | Non-controlling interests | Total equity |
|--|--------------------|----------------------|-------------------------------------|-------------------|-------------------|--------------------|---------------------------|--------------------|
| Balance at 1 January 2013 | 284.172.126 | (273.858.865) | 83.092.884 | 98.596.224 | 55.658.684 | 1.814.806 | 161.604 | 249.637.463 |
| Total comprehensive income for the period | - | 16.126.029 | - | - | - | - | - | 16.126.029 |
| Profit or loss for the period | - | 16.126.029 | - | - | - | - | - | 16.126.029 |
| Other components of comprehensive income | - | - | - | - | - | - | - | - |
| The transfer of the revaluation reserve to retained earnings following the discard of revalued tangible assets | - | 644.772 | (644.772) | - | - | - | - | - |
| Tangible assets revaluation | - | - | 2.677.368 | - | - | (183.571) | - | 2.493.797 |
| Transactions with shareholders recognised directly in equity | - | - | - | - | - | - | - | - |
| Transfer of the retained earnings to reserves | - | (13.259.603) | - | 13.017.149 | 910.198 | (121.837) | (6.301) | 539.606 |
| Dividends distributed to shareholders | - | (2.620.361) | - | - | - | - | - | (2.620.361) |
| Covering of the loss from the restatement of financial statements of reserves | (216.568.256) | 288.697.131 | - | (69.215.114) | - | (2.913.761) | - | - |
| Balance at 31 December 2013 | 67.603.870 | 15.729.103 | 85.125.480 | 42.398.257 | 56.568.882 | (1.404.363) | 155.303 | 266.176.532 |

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Eugen Scheuşan
Chief Executive Officer

Ilie Frăşineanu
Chief Financial Officer

S.C ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT ON CASH FLOWS
FOR THE YEAR CLOSED ON 31 DECEMBER 2014
(all the amounts are expressed in RON, unless otherwise specified)

| | <u>Year 2014</u> | <u>Year 2013</u> |
|---|---------------------------|----------------------------|
| Cash flows from operating activities | | |
| Cash receipts from customers | 515.950.311 | 482.196.336 |
| Payments to suppliers | (392.251.985) | (389.319.193) |
| Payments to employees | (38.736.248) | (35.131.510) |
| Other operating activities | (58.296.186) | (42.694.163) |
| Cash from operating activities | <u>26.665.892</u> | <u>15.051.472</u> |
| Interest paid | (17.271) | (55.130) |
| Income tax paid | (2.603.623) | (1.002.610) |
| Net cash from operating activities | <u>24.044.998</u> | <u>13.993.732</u> |
| Cash flows from investing activities | | |
| Acquisition of shares | - | - |
| Acquisition of tangible assets | (6.251.852) | (16.681.112) |
| Receipts from sale of non-current assets | 20.976 | 103.039 |
| Interest received | 312.975 | 429.029 |
| Dividends received | 51.881 | - |
| Net cash from investing activities | <u>(5.866.020)</u> | <u>(16.149.044)</u> |
| Cash flows from financing activities | | |
| Proceeds from issuing shares | - | - |
| Cash proceeds from loans | 30.737.704 | 58.150.986 |
| Cash repayments of amounts borrowed | (30.737.704) | (58.150.986) |
| Dividends paid | (2.725.421) | (2.429.112) |
| Effect of exchange rate changes on loans and liabilities | 177.815 | (81.352) |
| Net cash from financing activities | <u>(2.547.606)</u> | <u>(2.510.463)</u> |
| Cash and cash equivalents net increase/decrease | <u>15.631.372</u> | <u>(4.665.776)</u> |
| Cash and cash equivalents at beginning of period | <u>15.818.377</u> | <u>20.484.151</u> |
| Cash and cash equivalents at end of period | <u>31.449.749</u> | <u>15.818.377</u> |

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Eugen Scheuşan
Chief Executive Officer

Ilie Frăsineanu
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S.C ELECTROMAGNETICA S.A.
EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR CLOSED ON 31 DECEMBER 2014
(all the amounts are expressed in RON, unless otherwise specified)

1 INFORMATION ABOUT THE GROUP

Electromagnetica SA – parent company – is a Romanian legal entity incorporated under the legal form of joint stock company for an unlimited duration, organised and operating under its articles of incorporation, Law no. 31/1991 republished in 2004 and amended by Law no. 441/2006, Government Emergency Ordinance (GEO) no. 82/2007 and GEO no. 52/2008, and Law no. 297/2004 on the capital market. The registered office of the company is in Bucharest, Calea Rahovei no. 266-268, sector 5, Bucharest, Romania, postal code 64021, telephone 021.404.21.31, 021.404.21.02, fax 021.404.21.95, website www.electromagnetica.ro, Tax ID Code RO 414118, registration number with the Trade Register J40/19/1991. The company share capital is 67.603.870,40 lei divided into 676,038,704 ordinary shares, registered and dematerialised, recorded in electronic account in the shareholder register held by Depozitarul Central SA. According to the company's articles of incorporation, its main object of activity is the manufacture of instruments and appliances for measuring, testing and navigation (NACE code 2651).

SC Electromagnetica Goldstar SRL – operated as a Romanian-Korean joint venture until 2011, when SC Electromagnetica took over under a share assignment the entire equity held by the Korean partners and become the sole shareholder of this company. It is a limited liability company with registered office in Bucharest, Calea Rahovei no. 266-268, sector 5, registration number with the Trade Register J40/12829/1991, Tax ID 400570; its main object of activity is the manufacture of communication equipment (NACE code 2630). The company also carries out service and warranty activities for communication equipment and real estate renting activities.

SC Electromagnetica Fire SRL is a limited liability company with registered office in Bucharest, Calea Rahovei no. 266-268, sect. 5, corp 2, parter, axele C-D, stalpii 6 ½ - 7, registered with the Trade Register Office attached to Bucharest Tribunal under no. J40/15634/2006, Tax ID 19070708, which carries out activities pertaining to fire protection, technical assistance for fire prevention and extinction and private emergency services for civil protection (NACE code 8299).

SC Electromagnetica Prestserv SRL is a limited liability company with registered office in Calea Rahovei no. 266-268, sector 5, corp 1, etaj 2, axele A-B, stalpii 1-2, registered with the Trade Register Office attached to Bucharest Tribunal under no. J40/1528/2003, Tax ID 15182750, which provides cleaning services (NACE code 4311).

SC Electromagnetica Prestserv SRL and **SC Electromagnetica Fire SRL** were set up through the outsourcing of certain services within SC Electromagnetica SA, namely cleaning services, technical assistance services for fire prevention and extinction, private emergency services for civil protection.

SC Procetel SA is a joint stock company with registered office in Bucharest, Calea Rahovei 266-268, registration number with the Trade Register J40/10437/1991, Tax ID 406212, tel.: 031.700.26.14, fax: 031.700.26.16. SC Procetel SA is an unlisted joint stock company (its shares are not traded on the stock exchange) and its main object of activity is other research and experimental development on natural sciences and engineering (NACE code 7219). Currently, its research activity is significantly diminished and its results mainly derive from its real estate renting activities.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR CLOSED ON 31 DECEMBER 2014
(all the amounts are expressed in RON, unless otherwise specified)

Statement of interest in subsidiaries

| | Share capital total | | Of which: Electromagnetica | | |
|-----------------------------------|---------------------|-------------------|-------------------------------|-------------------|---------------------------------------|
| | Value | No. of securities | Value | No. of securities | Ownership and voting right percentage |
| Procetel | 110.005 | 44.002 | 732.008*) | 42.483 | 96,548 |
| Electromagnetica Goldstar | 295.080 | 2.650 | 3.126.197*) | 2.650 | 100 |
| Electromagnetica Prestserv | 30.000 | 300 | 29.500 | 295 | 98,333 |
| Electromagnetica Fire | 80.000 | 800 | 79.782 | 799 | 99,875 |

*) *Negotiated purchase value*

During the reporting period, there were no changes in the shareholding structure of the subsidiaries.

The structure of the administrative and executive management of subsidiaries is as follows:

a) Electromagnetica Goldstar SRL

Administrative management: Florea Vlad – Sole Director, under a 4 year mandate valid until 1 August 2015

Executive management: Viorel Stroică – Executive Director

b) Electromagnetica Fire SRL

Administrative management: Maria Rogoz – Sole Director, under a 4 year mandate valid until 26 March 2018

Executive management: Maria Rogoz – Managing Director

c) Electromagnetica Prestserv SRL

Administrative management: Gheorghe Ciobanu – Sole Director, under a 4 year mandate valid until 3 November 2018

Executive management: Gheorghe Ciobanu – Managing Director

d) Procetel SA

Administrative management: Florea Vlad – Sole Director, under a 4 year mandate valid until 29 April 2018

Executive management: Mihai Sanda – Accounting Officer

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR CLOSED ON 31 DECEMBER 2014
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2 APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New or revised standards and interpretations mandatory for the Group and applicable to the accounting periods beginning on 1 January 2014.

▪ **IFRS 10 – Consolidated Financial Statements** (effective as of 1 January 2014), adopted by the EU on 11 December 2012, supersedes the sections of IAS 27 – Consolidated and Separate Financial Statements on the consolidated financial statements. SIC 12 – Consolidation - Special Purpose Entities was withdrawn upon the issuing of IFRS 10. According to IFRS 10, there is a single basis for consolidation, which is control. In addition, IFRS 10 includes a new definition of control, which contains 3 elements: (a) power over the investee, (b) exposure, or rights, to variable returns from its involvement with the investee (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance was added to IFRS 10 for the treatment of complex scenarios. The amendments made by IFRS 10 require a significant judgement by the management in determining the controlled entities and the latter must be consolidated by the parent company according to the requirements included in IAS 27. The Group management reviewed the level of control on investments in other entities in accordance with IFRS 10 and concluded that there is no effect on the classification of any of the Group's investments held during the reporting period or the comparative periods covered by these financial statements.

▪ **IFRS 11 – Joint Arrangements** (effective as of 1 January 2014), adopted by the EU on 11 December 2012, supersedes IAS 31 – Interests in Joint Ventures. IFRS 11 treats the manner of classification of the joint arrangements of which two or more parties have joint control. SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers was withdrawn upon the issuing of IFRS 11. According to IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights or obligations of the parties to the arrangement, whereas IAS 31 identified three forms of joint ventures: jointly controlled entities; jointly controlled assets; jointly controlled operations. In addition, in accordance with IFRS 11, an associate in a joint venture is required to recognise an investment and account for it using the equity method, whereas, in accordance with IAS 31, it can use either the equity method or the proportionate consolidation according to its equity interest. IFRS 11 does not have a significant impact on the financial statements as the Group is not associated in joint venture arrangements.

▪ **IFRS 12 – Disclosure of Interests in Other Entities** (effective as of 1 January 2014), adopted by the EU on 11 December 2012, requires the disclosure of additional information about the significant judgements and assumptions made in determining the nature of the interest in an entity or arrangement, subsidiary, joint arrangement and joint ventures, and consolidated structured entities. The adoption of

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IFRS 12 does not significantly affect the disclosure of the information included in the financial statements of the Group for the year closed on 31 December 2014.

▪ **IAS 27 – Separate Financial Statements** (amended in 2011), effective as of 1 January 2013, adopted by the EU on 11 December 2012. For the companies that apply the IFRS adopted by the EU, the effective date is 1 January 2014. The standard maintains the existing requirements for the accounting and presentation of information in IAS 27 (2008) with regard to the separate financial statements, with minor clarifications. At the same time, the existing requirements of IAS 28 (2008) and IAS 31 for the separate financial statements were incorporated in IAS 27 (2011). The standard no longer treats the principle of control and the provisions on the preparation of consolidated financial statements, which were incorporated in IFRS 10 – Consolidated Financial Statements. The amendments had no significant effect on the consolidated financial statements, their application will be made together with IFRS10, IFRS 11, IFRS 12 and IAS 8 (revised) starting with 1 January 2014. The entity does not expect significant influences due to their application.

▪ **IAS 28 – Investments in Associates and Joint Ventures** (amended in 2011), effective as of 1 January 2013, adopted by the EU on 11 December 2012. For the companies that apply the IFRS adopted by the EU, the effective date is 1 January 2014. There are limited amendments made to IAS 28 (2008):

(a) IFRS 5 – Non-current assets held for sale and discontinued operations applies to an investment or part of an investment in an associate or joint venture that meets the criteria to be classified as an investment held for sale. For any remaining part of the investment that was not classified as held for sale, the equity method is applied until the part classified as held for sale is disposed of. After the disposal, any interest maintained is accounted for using the equity method if the interest maintained continues to be an associate or a joint venture; (b) previously, IAS 28 (2008) and IAS 31 stipulated that the end of the significant influence or joint control should lead to the revaluation of any maintained interest in all the cases, even if the significant influence was followed by joint control. Currently, IAS 28 (2011) stipulates that in such situation the interest maintained in the investment should not be revalued. The amendments had no significant effect on the consolidated financial statements, their application will be made together with IFRS10, IFRS 11, IFRS 12 and IAS 8 (revised) starting with 1 January 2014. The entity does not expect significant influences due to their application.

▪ **Amendments to IFRS 10, IFRS 12 and IAS 27** referring to investment companies, adopted by the EU on 20 November 2013. The amendments to IFRS 10 define the investment company and stipulate that a company that meets the requirements to be considered an investment company and prepares financial statements in accordance with IFRS should not consolidate subsidiaries but evaluate them on a fair basis, by means of the profit and loss account, in the consolidated and separate financial statements. The amendments do not affect the financial statements of the Group, as it is not an investment group.

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- **Amendments to IAS 32 - Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities**, effective as of or after 1 January 2014, adopted by the EU on 13 December 2012. The amendments address the inconsistencies in the current practice in applying the offsetting criteria provided for in IAS 32 – Financial Instruments: Presentation. The amendments clarify the meaning of the expression "currently has a legally enforceable right to set off the amounts" and the fact that certain settlement systems on a gross basis can be considered equivalent to the settlement on a net basis. The application of these amendments to IAS 32 had no impact on the financial statements of the Group because it has no offsetting agreements in force. As in previous periods, the Group applies the Romanian legislation in force on the settlement by the offsetting of mutual trade receivables and trade payables, namely the Government Decision (GD) no. 685/2009 on the "Regulation for the offsetting of the outstanding liabilities of tax payers, legal persons".

- **Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets** (issued on 29 May 2013 and applicable to annual periods beginning after 1 January 2014). The amendments clarify that the scope of disclosures on the recoverable amount of assets where the value concerned is based on the fair value minus the costs of disposal is limited to the depreciated assets. The amendments do not affect these financial statements.

- **Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting**, adopted by the EU on 19 December 2013. According to the amendments, it would not be necessary to no longer use hedge accounting upon the novation of a derivative hedging instrument if certain criteria are met. The application of these amendments to IAS 39 does not have a significant impact on the financial statements.

- **Annual improvements to IFRS Cycle 2011-2013**, with reference to IFRS 3 – Business Combinations; IFRS 13 – Fair Value Measurement and IAS 40 – Investment Property, applicable to periods beginning in July 2014. They clarify that IFRS 3 does not apply to the accounting of the creation of a joint arrangement in the financial statements of the joint arrangement itself, explain the application of the fair value measurement according to IFRS 13 to the financial assets and financial liabilities with offsetting positions for the market risk or credit risk of the associate and explain the classification of a property as an investment property or owner-occupied property.

- **Annual improvements to IFRS Cycle 2010-2012**, with reference to IFRS 2 – Share-based Payment; IFRS 3 – Business Combinations; IFRS 8 – Operating Segments; IAS 16 – Property, Plant and Equipment; IAS 24 – Related Party Disclosures; IAS 38 – Intangible Assets; IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. These amendments do not significantly affect these financial statements.

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(all the amounts are expressed in RON, unless otherwise specified)

- **IFRIC 21 – Levies**, adopted by the EU on 13 June 2013, establishes the accounting on liabilities consisting of taxes, other than the income tax. The interpretation refers to the definition of an event that obligates an entity to pay a tax and the date of recognition of such liabilities.

IASB standards and interpretation not yet effective

- **IFRS 9 – Financial Instruments**, issued in November 2009 (effective as of 1 January 2018). This standard introduces new requirements for the classification and measurement of financial assets. IFRS 9, amended in October 2010, includes requirements for the classification and measurement of financial liabilities and derecognition.
- **Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets**: The clarification of the acceptable amortisation and depreciation methods (effective for annual periods beginning on or after 1 January 2016) has not yet been adopted by the EU. This amendment provides further guidance on the manner of calculation of tangible assets depreciation and intangible assets amortisation. The management has not yet analysed the effects of the application of these amendments.
- **Amendments to IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture** (applicable to annual periods beginning on or after 1 January 2016), not yet adopted by the EU. Biological assets fall under the scope of IAS 16 Property, plant and equipment and are subject to all the requirements thereof. The management does not expect these amendments to have a significant effect on the financial statements.
- **Amendment to IFRS 11 – Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations** (effective for annual periods beginning on or after 1 January 2016) has not yet been adopted by the EU. IFRS 11 refers to the accounting for interests in joint ventures and joint operations. This amendment provides new guidance on the accounting for the acquisition of interest in a joint operation, which represents a business in accordance with IFRS, and specifies the appropriate accounting for such acquisitions. The management does not expect the adoption of IFRS 11 to have a significant impact on the financial statements as the Group is not currently involved in joint ventures.
- **IFRS 15 – Revenue from Contracts with Customers** (effective for annual periods beginning on or after 1 January 2017) has not yet been adopted by the EU. IFRS 15 establishes a five-step model to be applied to the revenue from a contract with a customer (with limited exceptions), irrespective of the type of revenue or the industry. The requirements of the standard will also apply to the recognition and measurement of gains and losses from the sale of non-financial assets that are not a product of the ordinary activity of the Group (for instance: sale of tangible or intangible assets). Detailed disclosures will be required, including disaggregate total revenues, information on performance obligations, changes in debit or credit balances from a period to another and critical judgements and estimates. The management

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expects the application of the new standard to affect certain amounts reported in the financial statements and require the detailing of certain information in the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the date of the Group's annual report, i.e. 31 December 2014, and in compliance with the Order of the Minister of Public Finance no. 1286/2012 approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to the trading companies the shares of which are admitted to trading on a regulated market, as further amended and clarified.

IFRS are applied as of 1 January 2011; the first year for which the separate financial statements were prepared in compliance with IFRS was 2012.

Operating and presentation currency

These consolidated financial statements are presented in RON, the operating currency of the Group.

Basis of preparation

The consolidated financial statements were prepared on the basis of the historical cost, except for certain financial instruments that are measured at the revalued amount or fair value, as explained in the accounting policies. The historical cost is generally based on the fair value of the consideration in exchange of the assets. At the same time, the tangible assets (IAS 16: revaluation) and investment property (IAS 40: fair value) are presented at fair value. Based on the management's estimates, adjustments are made for impaired or slow moving inventories. The set up and reversal of allowances for cost impairment is made in the profit and loss account.

In the first series of financial statements prepared in compliance with IFRS (31 December 2012), the Group applied IAS 29 – Financial Reporting in Hyperinflationary Economies and corrected the historical cost of share capital, legal reserves and other reserves set up from the net profit by the effect of inflation until 31 December 2003. These adjustments were recorded in separate analytical accounts.

The consolidated financial statements include the separate financial statements of SC Electromagnetica SA (the parent company) and its subsidiaries, (the "Group") at 31 December 2014, prepared based on uniform accounting and measurement principles. The financial statements of the subsidiaries are prepared at 31 December 2014, the same reporting date as for the parent company.

Consolidation of subsidiaries

The assets and liabilities of the subsidiaries are evaluated at fair value on the date of acquisition. If the interest of the Group in the net fair value of the assets, liabilities and contingent liabilities identifiable and

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recognised exceeds the cost related to the business combination, the surplus is recognised in the profit and loss account. Non-controlling interests, which entitle the holders to a proportionate share of the net asset in case of the company liquidation, can be initially measured either at fair value or at a value that reflects the share of the minority in the fair value of the identifiable and recognised net assets. The recognition method is selected for each transaction separately. The goodwill is recognised as an asset and is assessed for impairment at least annually. The loss from goodwill impairment is immediately recognised in the profit or loss for the period and is not carried forward in the next periods.

The non-controlling interest is the share of the profit or loss and net assets of a subsidiary that is not owned by the parent company and is presented in the consolidated statement of comprehensive income and in the equity presented in the consolidated statement of the financial position, separately from the equity of the parent's shareholders.

The returns of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of the profit and loss and other components of comprehensive income on the effective date of the acquisition, or until the effective date of the disposal, respectively. Where applicable, the financial statements of the subsidiaries are adjusted in order to align their accounting policies to those of the parent company. All the transactions, balances, revenues and expenses within the Group are fully eliminated upon consolidation.

The Group does not own securities in associated entities and interests in joint ventures.

Going concern principle

The consolidated financial statements were prepared based on the going concern principle, which implies that the Group will be able to realise its assets and pay its liabilities in the ordinary course of business in the next period.

Comparative statements

Certain amounts in the consolidated statement of financial position, the consolidated statement of profit or loss and other components of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity were reclassified to comply with the presentation of the current year.

Foreign currency

The operations expressed in foreign currency are recorded in lei, at the official exchange rate on the date of the transaction settlement. Monetary assets and liabilities recorded in foreign currency on the date of preparation of the statement of financial position are expressed in lei, at the exchange rate of that date. The gains or losses from their settlement and the conversion of monetary assets and liabilities denominated in foreign currency at the exchange rate applicable at the end of the financial period are recognised in the profit or loss for the period. The non-monetary assets and liabilities that are measured at historical cost in foreign currency are recorded in lei, at the exchange rate of the transaction date. The

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non-monetary assets and liabilities denominated in foreign currency and measured at fair value are recorded in lei, at the exchange rate applicable on the date when their fair value was determined.

The differences resulting from the conversion are presented in the profit and loss account.

The exchange rates of the main foreign currencies were as follows:

| CURRENCY | Exchange rate | Exchange rate |
|-----------------|----------------------|----------------------|
| | 31 Dec 2014 | 31 Dec 2013 |
| EUR | 4,4821 | 4,4847 |
| USD | 3,6868 | 3,2551 |

Use of estimates and professional judgement

The preparation of the financial statements in compliance with the IFRS adopted by the European Union requires the use by the management of estimates and assumptions that affect the application of the accounting policies and the reported value of assets, liabilities, revenues and expenses. The estimates and judgements related thereto are based on historical data and other factors deemed relevant in the given circumstances and the result of these factors represents the basis for the judgements used in determining the carrying amount of assets and liabilities for which there are no other evaluation sources available. The actual results may differ from the estimated values. Estimates and judgements are periodically reviewed. The reviews of accounting estimates are recognised in the period in which the estimate is reviewed, if the review affects only that period, or in the current and future periods, if the review affects both the current period and future periods. The effect of the modifications pertaining to the current period is recognised as revenue or expense in the current period. The effect on the future periods, if any, is recognised as revenue or expense in the corresponding future periods. The Group management considers that the possible differences in relation to these estimates will not affect significantly the financial statements in the near future.

Estimates and assumptions are used in particular for the impairment of fixed assets, the estimation of the useful life of a depreciable asset, the allowances for doubtful debts, provisions, and the recognition of deferred tax assets. According to IAS 36, both intangible and tangible assets are analysed to identify indicators of impairment at the balance sheet date. If the net carrying amount of an asset is higher than its recoverable amount, the loss from impairment is recognised to reduce the net carrying amount of that asset to the level of the recoverable amount. If the reasons for the recognition of the impairment loss disappear in the coming periods, the net carrying amount of the asset is increased to the value of the net carrying amount that would have been determined if no impairment loss had been recognised.

The evaluation of the impairment loss on receivables is individual and relies on the best estimate of the management regarding the current value of the cash flows expected to be received. The Group reviews its trade receivables and other receivables on every date of the financial position in order to assess whether impairment in value should be recorded in the profit and loss account. The professional judgement of the management is particularly required to estimate the value and coordinate the future

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cash flows when the impairment loss is determined. These estimates are based on assumptions that refer to several factors and the actual results may be different, which leads to future modifications of adjustments.

Deferred tax assets are recognised for tax losses to the extent that the existence of a taxable profit that would cover the losses is probable. The use of the professional judgement is necessary in determining the value of deferred tax assets that can be recognised based on the probability with regard to the period and level of the future taxable profit and the future fiscal planning strategies.

Accounting principles, policies and methods

According to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

The Group has selected and applies consistently its accounting policies for transactions, other events and similar conditions, except for the cases where a standard or an interpretation specifically provides for or allows the classification of events with regard to which the application of different accounting policies could be appropriate. If a standard or interpretation provides for or allows such a classification, an appropriate accounting policy must be selected and applied consistently to each category.

The Group changes an accounting policy only if the change:

- is required by a standard or interpretation; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

We present below a summary of the significant accounting policies applied to all the periods presented in the financial statements, except for the changes deriving from the new standards and amendments to standards with the date of initial application 1 January 2014 and presented in section 2.

a) Intangible assets, tangible assets and investment property

a.1 Intangible assets

Initial measurement

The Group chose to measure these assets at purchase cost or production cost (self-created) according to IAS 38 – Intangible Assets.

Measurement subsequent to initial recognition

The Group selected the cost model as the accounting policy for the measurement of intangible assets subsequent to the initial recognition.

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The Group chose to use the straight-line method for the amortisation of intangible assets. The useful life for this group of non-current assets is between 3 and 5 years.

The Group applies IAS 36 to determine whether an intangible asset measured at cost is impaired. At the end of each reporting period, the Group assesses the indicators of impairment of these assets and, if such indicators are identified, the recoverable amount of the asset is estimated and the related impairment is recorded. The impairment loss must be recognised immediately in the profit or loss.

For their presentation in the profit and loss account, the revenue or loss occurring upon the end of use or disposal of an intangible asset are determined as the difference between the revenue generated by the asset disposal and its unamortised value, including the costs incurred for its disposal, and should be presented as net amount in the profit and loss account, according to IAS 38.

a.2 Tangible assets

Initial measurement

Tangible assets are initially recognised at the purchase cost or the production cost (if self-created), and are carried at the amount net of accumulated depreciation and impairment.

The cost of purchased tangible assets is given by the value of the consideration for the purchase of those assets and other costs directly necessary to bring the assets to the location and condition required for their operation in the manner intended by the management. The cost of self-created assets includes salaries, materials, indirect production costs and other costs directly necessary to bring the assets to their current location and condition.

Measurement subsequent to initial recognition

The Group selected the *revaluation model for the measurement subsequent to the initial recognition of tangible assets*. According to the revaluation model, a tangible asset the fair value of which can be reliably measured should be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment.

Revaluations should be carried out regularly enough to ensure that the carrying amount of an asset does not differ materially from the amount determined by the use of its fair value at the end of the reporting period.

The fair value of land and building is generally determined based on market samples, through a measurement made by professional and qualified assessors.

The fair value of tangible assets is generally their market value determined by measurement.

Revaluation frequency depends on the changes in the fair value of revaluated tangible assets. If the fair value of an asset materially differs from its carrying amount, a new revaluation is required.

When a non-current asset is revalued, any cumulated depreciation at the date of the revaluation is removed from the gross carrying amount of the asset and the net amount is retreated at the revalued amount of the asset.

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Therefore, revaluation frequency depends on the changes in the fair value of tangible assets. If the fair value of a revalued tangible asset at the balance sheet date materially differs from its carrying amount, a new revaluation is required. If the fair values are volatile, as the case may be for land and buildings, frequent revaluation may be required. If the fair values are determined for a long period, as the case may be for plant and equipment, less frequent revaluation may be required. IAS 16 suggests that annual revaluation may be required if there are material and volatile changes in the values.

If a tangible asset is revalued, the entire category of tangible assets the revalued asset belongs to should be revalued.

The residual value of the asset and its useful life should be reviewed at least at the end of the financial period.

The depreciation of an asset begins when the asset is available for use, i.e. it is in the location and condition required to operate as intended by the management.

The depreciation of asset ends upon the first occurrence of either the date when the asset is classified as held for sale (or included in a group intended for disposal and classified as held for sale), according to IFRS 5, and the date when the asset is derecognised. Therefore, depreciation does not end when the asset is idle, except when the asset is completely depreciated.

Land and buildings are separable assets and are carried separately even when they are acquired together. The land owned is not depreciated.

If the cost of land includes costs of dismantling, removing and restoring, these costs are depreciated during the period in which revenue is obtained as a result of these costs being incurred.

The depreciation method used reflects the anticipated rate of consumption by the entity of the future economic benefits of the asset.

The residual value, the useful life and the depreciation method are reviewed at the date of the financial statements.

Depreciation policy applied by the Group

According to IAS 36, both intangible and tangible assets are analysed to identify indicators of impairment at the balance sheet date. For the intangible assets with indefinite useful life, the impairment test should be made annually even if there is no indication of impairment. If the net carrying amount of an asset is higher than its recoverable amount, the loss from impairment is recognised to reduce the net carrying amount of that asset to the level of the recoverable amount. If the reasons for the recognition of the impairment loss disappear in the coming periods, the net carrying amount of the asset is increased to the value of the net carrying amount that would have been determined if no impairment loss had been recognised. The resulting difference is carried as other operating income.

The carrying amount of a tangible asset is derecognised upon disposal or when future benefits from its use or disposal are no longer expected.

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The revaluation surplus of a tangible asset accumulated in equity should be directly transferred to the retained earnings as it is depreciated, if the asset is used, and upon derecognition, when the asset is disposed of or withdrawn from use.

The gain or loss resulting from the derecognition of a tangible asset should be recognised in profit or loss at the date of the asset derecognition.

If items of tangible assets that were held for rental to others are sold repeatedly, these assets should be transferred to inventories at the carrying amount of the date when they cease to be rented and become held for sale. The proceeds from the sale of these assets are recognised as revenue in accordance with IAS 18 – Revenue.

Maintenance and major repairs

Capitalised costs for major repair activities are separate components of the corresponding assets or groups of assets. Capitalised costs for major repairs are amortised using the amortisation method used for the underlying asset. The expenditure for major repair works includes the cost of replacement of the assets or parts thereof, the costs of inspection and the costs of major repairs. The expenditure is capitalised if an asset or a part of an asset which was amortised separately is replaced and is expected to generate future economic benefits. If a part of the replaced asset was not considered a separate component and, therefore, was not amortised separately, the replacement value is used to estimate the net carrying amount of the replaced asset(s) which is/are immediately removed. The inspection costs related to major maintenance programmes are capitalised and amortised over the period until the next inspection. All the other costs incurred for current repairs and ordinary maintenance are directly recognised as expenses.

a.3 Investment property

Initial measurement

Investment property is initially recognised at cost according to IAS 40 – Investment property. The cost of investment property includes the purchase price plus any costs directly attributable thereto (professional fees for legal services, charges for the ownership transfer, etc.).

Measurement subsequent to recognition

The Group selected the fair value model for the presentation of investment property in its financial statements. The fair value is determined annually by an authorised assessor. The depreciation is no longer accounted for; instead, the impairment/appreciation according to the annual measurement at fair value is accounted for using the accounts 6561 "Fair value loss on investment property", and 7561 "Fair value gain on investment property"

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b) Financial assets

Financial assets include the shares owned by the parent company in subsidiaries, associated entities and jointly controlled entities, the loans granted to these entities, other investments held as fixed assets, other loans. These assets are presented in the separate financial statements of the parent. The subsidiaries do not hold equity instruments of other entities.

According to IAS 27 – Separate Financial Statements, when the parent company prepares separate financial statements, the investments in subsidiaries, the joint ventures and the associated entities are accounted for either:

a) at cost, or

b) according to IAS 39 – Financial Instruments: Recognition and Measurement (as IFRS 9 – Financial Instruments, although published, is not yet applied)

The separate financial statements are the statements presented by a parent (i.e. an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with IAS 39 – Financial Instruments: Recognition and Measurement.

The entity should apply the same accounting method for each category of investments.

According to IAS 39, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss – the financial assets held for trading;
- Loans and receivables – non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
 - those intended by the entity to be sold immediately or within a short period (which should be classified as held for trading) and those designated by the entity on initial recognition as assets at fair value through profit or loss;
 - those designated by the entity on initial recognition as available-for-sale;
 - those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (which should be classified as available for sale).
- Held-to-maturity investments – non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity firmly intends and is able to hold to maturity.
- Available-for-sale financial assets – any financial assets not classified in one of the above categories.

According to IAS 39, "**Financial Instruments**", the Group classifies the financial assets held as **Financial assets at fair value through profit or loss and classifies in this category the following:**

- Shares acquired for the purpose of trading, BVB portfolio. Short-term securities (shares and other financial investments) admitted to trading on a regulated market are measured at the quoted value on the last trading day;
- The equivalent value of the green certificates received as a producer of electricity from the electricity transmission and distribution operator, in accordance with applicable legislation. These are initially measured at the trading price on the date of their receipt, as published by the operator of the

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electricity market. At the end of the financial period, the remaining green certificates are measured at the trading value published by the electricity market operator for the last transaction and the differences are reflected in the profit or loss for the period (in the comprehensive income, as income or expense, as applicable).

c) Investments in related entities

The subsidiaries are entities controlled by the parent. IFRS 10 – Consolidated Financial Statements defines the control principle and establishes the control as the basis for consolidation. IFRS 10 establishes the manner of application of the control principle to determine whether an investor controls an investee and, therefore, it should consolidate the investee.

Starting with 2014, the Group applies IFRS 10 – Consolidated Financial Statements because the parent controls several entities. IFRS 10 supersedes IAS 27 – Consolidated and Separate Financial Statements. Consolidated financial statements – the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Group – a parent and its subsidiaries.

A parent – an entity that controls one or more entities.

Subsidiary – an entity controlled by another entity.

An investor controls an investee if and only if the investor has all of the following elements:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.

For the beginning of the application of IFRS and in these financial statements, the parent chose to account for its investments in subsidiaries, jointly controlled entities and associates at the carrying amount.

According to IAS 39 par. 45, these assets are financial assets available for sale. None of the companies in which the parent holds interests is quoted on a stock exchange. The corresponding assets are measured at the acquisition cost, are annually tested for impairment, and the impairment, if any, is recognised at the date of finding.

Power – an investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. Power derives from rights.

Returns – an investor is exposed or has rights to returns from its involvement with an investee when the investor's returns from its involvement may be variable as a result of the investee's performance

The connection between power and returns – an investor that controls an investee must not only have power over the investee and exposure or rights to variable returns from its involvement with the investee,

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the investor must also have the ability to use its power over the investee to affect its returns from its involvement with the investee.

The subsidiaries do not have interests in other entities.

Consolidation procedures used

To consolidate the financial statements, Electromagnetica Group

a) combines like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries

b) offsets (eliminates) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary

c) eliminates in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, or eliminated in full). Intragroup losses may indicate an impairment requiring recognition in the consolidated financial statements. IAS 12 – Income Taxes is applied to the temporary differences occurring from the elimination of profits and losses deriving from transactions inside the group.

The non-controlling interests in subsidiaries are presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

Uniform accounting policies

Electromagnetica Group prepares consolidated financial statements using uniform accounting policies for similar transactions and events in similar circumstances.

If a subsidiary part of Electromagnetica Group uses accounting policies other than those adopted in the consolidated financial statements for similar transactions and events in similar circumstances (different methods of depreciation, different methods of measurement, etc.), the financial statements shall be adjusted to enable the use of the financial statements of that subsidiary in the preparation of the consolidated financial statements and ensure compliance with the Group's accounting policies.

Electromagnetica Group includes in its consolidated financial statements the income and expenses of a subsidiary from the date it gains control until the date when the entity ceases to control the subsidiary.

Non-controlling interests – the profit or loss and each component of other comprehensive income is attributed to the owners of the parent and to the non-controlling interests.

Reporting date

The financial statements of the parent and its subsidiary use the same reporting date in the preparation of the consolidated financial statements, namely 31 December 2014 for these statements.

Electromagnetica does not have joint arrangements, as regulated by IFRS 11 – Joint Arrangements, or interests in other entities, unconsolidated subsidiaries or unconsolidated structured entities.

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The application of IFRS 10, 11 and 12 as of 1 January 2014 required a significant judgement by the management in determining the controlled entities that must be consolidated by the parent company according to the requirements included in IAS 27 prior to this date. The management assessed the power over its investees, derived from the voting rights attributed based on equity instruments (shares). The parent has rights to variable returns from its involvement in the subsidiaries in which it invested, which rights correspond to the performance of the investee. The management concluded that it not only has power over the group entities, but it also has the ability to use its power to affect its returns from its involvement with the investees.

The management of Electromagnetica reviewed the level of control on investments in other entities in accordance with IFRS 10 and concluded that there is no effect on the classification of any of the investments held during the reporting period or the comparative periods covered by these financial statements.

d) Interest on loans

The interest on the loans directly attributable to the purchase, construction or manufacture of an asset with long production cycle are capitalised until the asset is prepared for its predetermined use or sale. All the other costs related to loans are recognised as expenses in the profit and loss account for the period of their occurrence.

e) Government grants

According to IAS 20, government grants are recognised only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. The grants that meet these requirements are presented as other liabilities and recognised systematically in the profit and loss account for the useful life of the assets they relate to.

f) Inventories

According to IAS 2 – Inventories, these actives are:

- assets held for sale in the ordinary course of business
- assets in the production process for sale in the ordinary course of business or
- materials and supplies that are consumed in production or service provision

Inventories are stated at the lower of cost and net realisable value. The net realisable value is estimated based on the selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. Based on the management's estimates, adjustments are made for impaired or slow moving inventories. The set up and reversal of allowances for cost impairment is made in the profit and loss account.

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According to IAS 2, the Group uses the First In First Out (FIFO) method to determine the inventory outflow cost of supplied materials.

The standard cost is used for inventory inflow and outflow of finished products. Based on the management accounting, the actual cost of the obtained products is determined at the end of each month.

g) Receivables and other like assets

Except for derivatives, which are recognised at fair value, and items denominated in foreign currency, which are translated at the closing exchange rate, the receivables and other similar assets are presented at amortised cost. This amount can be considered a reasonable estimate of the fair value given that in most cases the maturity is under one year. Long-term receivables are discounted using the effective interest rate method.

For their presentation in the annual accounts, receivables are measured at the probable collectable amount.

When a receivable is expected not to be fully collected, allowances for impairment are recorded at the level of the amount that cannot be recovered.

Receivables are discarded following their collection or assignment to a third party. Current receivables can also be discarded by the mutual offset of accounts receivable and payable between third parties, under the law.

The receivables with expired collection time limits are discarded after the Group obtains the documents proving that all the legal steps to recover these receivables were taken. Discarded receivables are recorded in the off-balance sheet account for order and evidence and continue to be monitored.

h) Cash and cash equivalents

For the purpose of the preparation of the Statement on Cash Flows, the cash is considered to include the existing petty cash and the cash in current bank accounts. Cash equivalents represent deposits and investments with high liquidity and maturities under three months.

i) Liabilities

A liability is a present obligation of the Group arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

A liability is recognised in the accounting records and presented in the financial statements when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation (probability) and the settlement amount can be measured reliably (reliability).

Current liabilities are the liabilities that must be paid within a period of up to one year.

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A liability should be classified as a current liability, also known as short-term liability, when:

- a) it is expected to be settled in the ordinary course of the Group operating cycle;
- b) it is primarily held for trading;
- c) it is due to be settled within 12 months after the balance sheet date;
- d) the Group does not have the unconditional right to postpone the settlement of the liability for at least 12 months from the balance sheet date.

All the other liabilities must be classified as **non-current liabilities**, even if they must be settled within 12 months after the balance sheet date, if:

- the initial term was longer than 12 months;
- the Group intends to refinance the non-current liability and its intention is supported by an agreement to refinance, or to reschedule payments that is completed before the financial statements are authorised for publication.

Liabilities are presented at amortised cost, except for derivatives, which are presented at fair value.

Non-current liabilities are discounted using the effective interest rate method. The discount rate used to this effect is the rate applicable at the end of the year to the derivatives that represent liabilities with similar maturities. The carrying amount of other liabilities is their fair value because they are generally due within a short period.

The Group derecognises a liability when the contractual obligations are performed, cancelled or expired. If the goods and services supplied in relation to current activities were not invoiced but the delivery was made and their value is available, the obligation in question is recorded as a liability (and not as a provision).

The amounts representing dividends attributed from the net profit for the reporting period are recorded in the following year within the retained earnings, to be carried in the account 457, "Dividends payable" following the approval of this destination by the general meeting of shareholders.

j) Income tax, including deferred tax

The income tax for the financial period includes the current tax and the deferred tax.

The income tax is recognised in the consolidated profit and loss account and other components of comprehensive income if the tax is related to the items recognised within equity.

Current income tax

The current tax payable is based on the taxable profit for the year. The tax profit is different from the profit presented in the profit and loss account because it excludes items of income or expenses that are taxable or deductible in other years and also excludes the items that will never become taxable or deductible. The liability of the Group in relation to the current income tax is calculated using the tax rates provided for by the law or a draft legislative instrument at the end of the year. Currently, the tax rate is 16%.

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Deferred tax

The deferred tax is created using the balance sheet method for the temporary differences of assets and liabilities (differences between the carrying amounts presented in the Group's balance sheet and their tax base). The tax loss carried forward is included in the calculation of the deferred tax asset. A deferred tax asset is recognised only if it is considered probable that there would be sufficient future taxable profit after the offset with the tax loss carry forward and the recoverable income tax.

Deferred tax assets and deferred tax liabilities can only be offset if the entity has this legal right and they relate to the income tax levied by the same taxing authority. If the probability to realise the deferred tax asset is higher than 50%, the asset is considered. Contrarily, a value adjustment is made for the deferred tax asset.

k) Revenue recognition

Revenues are measured according to IAS 18 – Revenue, at the fair value of the consideration received or receivable. Revenue is written down accordingly by the estimated value of the goods returned by customers, discounts and other similar items.

Sale of goods

Revenue arising from the sale of is recognised when all of the following criteria have been satisfied:

- the Group has transferred to the buyers the significant risks and rewards of ownership;
 - the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
 - the amount of revenue can be measured reliably;
 - it is probable that the economic benefits associated with the transaction will flow to the Group;
- and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the current activities is recognised when it is probable that any future economic benefits will flow to the Group and the amount of these benefits can be measured with reliability.

The amount of the revenue deriving from a transaction is usually determined by the agreement of the entity and the buyer or user of the asset. Revenue is measured at the fair value of the consideration received or receivable, considering the value of any commercial discounts and quantity rebates granted.

The consideration consists of cash or cash equivalents and the amount of the revenue is the amount of the cash or cash equivalent received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration can be inferior to the nominal amount of the cash received or receivable.

This situation also applies to supply contracts with supplier credit facility if the Group can offer to the buyer an interest-free credit or can accept from the latter trade instruments with a below-market rate of interest as consideration for the sale of goods. For the commercial contracts concluded as deferred payment supplier, the difference between the fair value and the nominal amount of the consideration is

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recognised as interest income. The fair value of the consideration is determined by discounting all the amounts receivable in the future using an implicit interest rate. The Group chose to use the interest rate determined under an internal procedure to discount the amounts receivable in the future.

Rendering of services

When the result of a transaction that involves the rendering of service can be estimated reliably, the revenue associated to the transaction must be recognised depending on the transaction stage of completion at the closing date of the reporting period. The result of a transaction can be estimated with reliability when all the conditions below are met:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the transaction stage of completion at the balance sheet date can be measured reliably;
- the costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

The Group uses the "percentage of completion method" to recognise the revenue depending on the transaction stage of completion. According to this method, revenue is recognised in the accounting periods of the rendering of services. The recognition of revenue on this base provides useful information on the shares of the rendering of services and its results during a period.

The revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. When the collectability of an amount already accounted for as revenue is uncertain, the amount that can no longer be collected or the amount the collection of which ceased to be probable is recognised as an expense rather than an adjustment of the initially recognised revenue amount. When the result of a transaction that involves the rendering of services cannot be reliably estimated, the revenue must be recognised only to the extent of the expenses recognised that are recoverable.

The revenue from renting activities is recognised on a straight-line basis in the profit and loss account over the duration of the rental agreement.

Dividends and interest

The revenue arising from dividends is recognised when the shareholder's right to receive payment is established. The revenue is recorded at the gross amount that includes the tax on dividends, which is recognised as a current expense in the period in which the distribution was approved.

The revenue arising from interest is recognised based on an accrual basis, by reference to the outstanding principal and the effective interest date, the rate that exactly discounts the estimated future flows of the amounts received.

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l) Provisions

Provisions are recognised for present obligations to third parties when it is probable that the obligation will be settled and the settlement amount can be estimated reliably. Provisions for individual obligations are settled at an amount equal to the best estimate of the amount necessary to settle the obligation.

Provisions are grouped by categories and are recognised for:

- a) lawsuits;
- b) guarantees to customers;
- c) dismantling of tangible assets and other similar actions related thereto;
- d) restructuring;
- e) employee benefits;
- f) other provisions

When the review by the management together with the legal advisors of the chances for the Group to lose a lawsuit leads to the conclusion that the estimated probability for loss is higher than 51%, a provision is recognised at the reliably estimated amount.

Provisions for guarantees to customers are recognised depending on the estimates of the management and the sales, technical and quality departments on the level of expenses incurred for repairs during the warranty period. The level of expenses incurred for repairs during the warranty period is determined as a percentage of the turnover for the reporting year.

Provisions for restructuring

The implicit restructuring obligation occurs where an entity:

- has in place an official detailed restructuring plan that presents: the activity or part of activity it refers to, the main locations affected, the location, position and approximate number of employees to receive compensation for the termination of their activity, the expenses involved, the date of implementation of the restructuring plan.

- has generated the reasonable expectation of the affected parties that the restructuring will be performed by starting the implementation of the restructuring plan or the communication of its main features to those affected by the restructuring process

The restructuring provision only includes the expenses directly related to the restructuring.

Provisions for employee benefits

The provisions for annual leaves not taken or other long-term employee benefits (if provided for in the labour contract) are recorded during the financial year. Upon their recognition as liabilities to employees, the amount of provisions will be carried forward in the corresponding revenue accounts.

Other provisions

If liabilities of uncertain timing or amount that meet the conditions of the recognition of provisions according to IAS 37 are identified but not found in any of the above categories, other provisions are recorded. At the end of each reporting period, the provision is revalued and adjusted to represent the best

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present estimate. When the analysis shows that the outflow of resources embodying economic benefits to settle the obligation is no longer probable, the provision must be cancelled.

The Group does not recognise provisions for operating losses. The forecast of operating losses indicates that certain operating assets can be impaired, in which case these assets are tested in accordance with IAS 36 – Impairment of Assets.

m) Employee benefits

The obligations representing short-term employee benefits are not discounted and are recognised in the statement of comprehensive income as the related service is rendered.

The short-term employee benefits are wages and salaries, bonuses, and social security contributions. Short-term benefits are recognised as expense in the period in which the services are rendered. The Group makes payments on behalf of its employees to the Romanian public pension system, the health fund and the unemployment fund in the ordinary course of business. All the Group employees are enrolled in and required to contribute to the Romanian public pension system. All the related contributions are recognised in the profit and loss account for the period in which they are paid. The Group does not have other additional obligations. The Group is not involved in any independent pension scheme, therefore it does not have any obligations in this regard. The Group is not involved in any post-employment benefit scheme. The Group does not have any obligation to provide subsequent services to former or present employees.

At present, the Group does not grant employee benefits in the form of profit sharing. Currently, there is no plan providing for the Group to grant benefits in the form of entity shares (or other equity instruments).

n) Profit or loss for the period

The profit or loss is accounted for cumulatively from the beginning of the financial period. The profit or loss for the period is determined as the difference between the income and expenses of the period.

The final profit or loss for the financial period is determined upon closure and represents the final balance of the profit and loss account. The profit is distributed under the laws in force. The amounts representing reserves set up from the profit of the current financial period, under applicable legal provisions, such as the legal reserve established under Law no. 31/1990, are recorded at the end of the current period. The accounting profit remaining after this distribution is carried forward at the beginning of the financial period following the period for which the annual accounts are prepared, in the account 1171, "Profit/loss carried forward" and is distributed to the other destinations decided by the general meeting of shareholders, in compliance with applicable legislation. The destinations of the accounting profit are accounted for after the general meeting of shareholders has approved the profit distribution, by the recording of the amounts representing dividends due to shareholders, reserves, and other destinations, under the law.

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o) Earnings per share

IAS 33 – Earnings Per Share stipulates that the entities which present both the consolidated financial statements and the separate financial statements are required to present the earnings per share only on the basis of the consolidated information. If the entity chooses to present the earnings per share based on its separate financial statements, it is required to present the information about the earnings per share only in the statement of comprehensive income. In this case, it is not necessary to present the earnings per share in the consolidated financial statements.

The Group chose to present the earnings per share in the separate financial statements of the parent.

p) Legal reserve

According to Romanian legislation, the entities must allocate an amount at least equal to 5% of the profit before tax to the legal reserves, until the reserves reach 20% of the share capital. When this level is reached, the entity can make additional allocations exclusively from its net profit. The legal reserve is deductible within the limit of 5% of the accounting profit, before the determination of the income tax.

q) Reporting by operating segments

An operating segment is a separate component of the Group, which is engaged in activities that could earn revenues and incur expenses, including revenues and expenses related to the transactions with any of the other components of the Group, and is exposed to risks and benefits that are different from those of the other segments. The main format for the Group's reporting by operating segments is represented by the segmentation by activities.

According to IFRS 8 – Operating Segments, an operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

Considering the criteria for the identification of operating segments and the quantitative thresholds described in IFRS 8, the Group identified the following operating segments for which it presents separate information:

1. Licensed activity – electricity supply and production
2. Unlicensed activity

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4 TANGIBLE ASSETS

| Value | Land and land improvement | Buildings | Plant and machinery | Other tangible assets | Tangible assets in progress | Total |
|--|---------------------------|-------------------|---------------------|-----------------------|-----------------------------|--------------------|
| At 31 December 2013 | 104.172.467 | 84.123.308 | 27.975.282 | 3.815.487 | 3.804.554 | 223.891.098 |
| Inflows, of which: | | | | | | |
| from revaluation | - | 1.636.845 | 5.039.295 | 725.581 | 3.115.307 | 10.517.028 |
| Outflows, of which: | | | | | | |
| from the determination of the net amount for revaluation | - | 274.902 | - | - | - | 274.902 |
| revaluation decrease | - | (4.807.685) | (94.373) | (3.047) | (5.071.422) | (9.976.527) |
| transfer to investment property | - | (3.558.259) | - | - | - | (3.558.259) |
| | - | (2.235) | - | - | - | (2.235) |
| | - | (1.247.191) | - | - | - | (1.247.191) |
| At 31 December 2014 | 104.172.467 | 80.952.468 | 32.920.204 | 4.538.021 | 1.848.439 | 224.431.598 |
| Accumulated depreciation | | | | | | |
| At 31 December 2013 | 199.711 | - | 801.804 | 116.297 | - | 1.117.812 |
| Amortisation for the year | 25.834 | 3.670.025 | 4.630.557 | 1.301.141 | - | 9.627.557 |
| Accumulated depreciation for outflows, of which: | | | | | | |
| from the determination of the net amount for revaluation | - | (3.558.259) | (31.821) | (1.947) | - | (3.592.027) |
| At 31 December 2014 | 225.545 | 111.766 | 5.400.540 | 1.415.491 | - | 7.153.342 |

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| | Land and land improvement | Buildings | Plant and machinery | Other tangible assets | Tangible assets in progress | Total |
|---|---------------------------|------------|---------------------|-----------------------|-----------------------------|-------------|
| Allowances for impairment | | | | | | |
| At 31 December 2013 | 1.505.105 | - | - | - | - | 1.505.105 |
| Allowances for impairment recognised in profit or loss | - | - | - | - | - | - |
| Reversals of allowances for impairment recognised in profit or loss | (427.908) | - | - | - | - | (427.908) |
| At 31 December 2014 | 1.077.197 | - | - | - | - | 1.077.197 |
| Net carrying amount | | | | | | |
| At 31 December 2013 | 102.467.650 | 84.123.308 | 27.173.478 | 3.699.190 | 3.804.554 | 221.268.180 |
| At 31 December 2014 | 102.869.724 | 80.840.702 | 27.519.664 | 3.122.530 | 1.848.439 | 216.201.059 |

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At 31 December 2014, the parent revalued all the tangible assets in group I – Buildings. The subsidiaries did not revalue these tangible assets because it was considered that there are no changes in value and their share in total assets of the Group is not significant.

According to the accounting policy, when a non-current asset is revalued, any cumulated depreciation at the date of the revaluation is removed from the gross carrying amount of the asset and the net amount is retreated at the revalued amount of the asset. The amount of the adjustment to be made following the removal of the accumulated depreciation is part of the carrying amount increase or decrease.

The revaluation was performed by a company authorised by the National Association of Romanian Valuers (ANEVAR).

At 31 December 2014, the tangible assets decreased by 0.92% (i.e. by 2.054.650 lei) compared to 31 December 2013, which is mainly due to the recorded depreciation.

The inflows of tangible assets consist of modernisation of the Group's premises and purchases of plant and machinery. The outflows of tangible assets consist of sales, discards, transfers to other categories, revaluation decreases.

The share of the parent's tangible assets in the total tangible assets of the Group is 97,27%.

The start balance of the tangible assets is adjusted by the amount of (270.443) representing the difference from the revaluation of the land owned by SC Electromagnetica Goldstar SRL included in the revaluation report no. 352/31.12.2013 issued by SC Rom-Consulting CO SRL; this amount is also presented within equity (note 14) and in the statement of changes in equity.

Mortgaged tangible assets

To secure the guarantee agreements and the loan contracts signed with the financing banks, the parent mortgaged the assets below, in favour of the said banks, as follows:

| Name of the asset | Guarantee contract | Financing bank |
|---|--------------------|----------------|
| 1. Land com. Domnești, Ilfov County = 67,713.56 m2 | Loan and agreement | BCR |
| 2. Land com. Moara Vlăsiei, Ilfov County = 70,469 m2 | Loan and agreement | BCR |
| 3. Land str. Mitropolit Filaret 35-37 sect. 4 Bucharest = 1,595 m2 | Loan and agreement | BCR |
| 4. Land str. Veseliei nr. 19 sect. 5 Bucharest = 16,095 m2 | Loan and agreement | BCR |
| 5. Buildings (cadastral parcels no. 13, 15, 16) Calea Rahovei 266-268 Sector 5 Bucharest | Loan | BRD |

The subsidiaries did not conclude guarantee agreements or loan contracts with banking institutions.

Allowances for the impairment of non-current assets

The company is involved in lawsuits for the recovery of possession of land and has set up allowances for the impairment of non-current assets in the previous years, in the amount of 1.505.105 lei.

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During 2014, the amount of 427.908 lei was transferred to revenue following the dismissal by the court of law of the action for the recovery or possession of the land located in str. Calea Rahovei no. 242, sector 5, Bucharest.

At 31 January 2014, the balance of the allowances for the impairment of non-current assets amounts to 1.077.197 lei.

5 INVESTMENT PROPERTY

The Group owns property that is fully used for rental. All the rental agreements have an initial duration of minimum one year. Further extensions are negotiated with the tenants. The obligations of the parties with regard to repairs, maintenance and improvements are set forth in the contracts.

This category of property is recognised as investment property according to IAS 40.

The Group selected the fair value model for the presentation of investment property in its financial statements. The fair value is determined annually by an authorised assessor.

At 31 December 2014, all the investment property was revalued. The revaluation was performed by a company authorised by ANEVAR and the revaluation method used was the cost model (net replacement cost).

At 31 December 2014, the investment property is structured as follows:

| | 2014 | 2013 |
|-------------------------------|------------------|------------------|
| Balance at 1 January | 907.248 | 1.048.880 |
| Inflows, of which: | 1.247.191 | 3.493 |
| from revaluation | - | 3.493 |
| Outflows, of which: | - | (145.125) |
| from revaluation | - | (145.125) |
| Transfers | - | - |
| Balance at 31 December | 2.154.439 | 907.248 |

For the purpose of consolidation, the building owned by SC Procetel SA and used for rental was reclassified as investment property. To apply an uniform accounting policy, the accounting depreciation calculated and recorded by the subsidiary during 2014 was removed.

There was no revaluation increase or decrease. The revenue arising from the investment property in 2014 amounts to 1.418.896 lei and covers the expenses incurred by the owner.

We mention that there are no restrictions on the level of realisation of investment property or the transfer of revenue and proceeds from disposal.

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6 INTANGIBLE ASSETS

| | Concessions patents licences | Other intangible assets | Intangible assets in progress | Total |
|---|---|--|--|------------------|
| Cost | | | | |
| At 31 December 2013 | 246.388 | 736.146 | 285.788 | 1.268.322 |
| Inflows, of which: | 121.484 | 1.394.886 | 1.203.538 | 2.719.908 |
| Outflows, of which: | - | - | (1.361.098) | (1.361.098) |
| Transfers | - | - | - | - |
| At 31 December 2014 | 367.872 | 2.131.032 | 128.228 | 2.627.132 |
| | | | | |
| | Concessions patents licences | Other intangible assets | Intangible assets in progress | Total |
| Accumulated amortisation | | | | |
| At 31 December 2013 | 198.226 | 209.933 | - | 408.159 |
| Amortisation for the year | 70.549 | 329.627 | - | 400.176 |
| Accumulated amortisation for outflows | - | - | - | - |
| At 31 December 2014 | 268.775 | 539.560 | - | 808.335 |
| | | | | |
| | Concessions patents licences | Other intangible assets | Intangible assets in progress | Total |
| Allowances for impairment | | | | |
| At 31 December 2013 | - | 140.000 | - | 140.000 |
| Allowances for impairment recognised in profit or loss | - | - | - | - |
| Reversals of allowances for impairment recognised in profit or loss | - | (50.000) | - | (50.000) |
| At 31 December 2014 | - | 90.000 | - | 90.000 |
| | | | | |
| Net carrying amount | | | | |
| At 31 December 2013 | 48.162 | 386.213 | 285.788 | 720.163 |
| At 31 December 2014 | 99.097 | 1.501.472 | 128.228 | 1.728.797 |

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Intangible assets include software, licences and various software applications. They are amortised using the straight-line method. The increase of intangible assets is mainly due to the purchase of the new integrated information system of the parent.

For most intangible assets, the useful life was estimated at 3 years, while the integrated information system of the parent will be amortised over 5 years.

At 31 December 2014, the share of the parent's intangible assets in the total intangible assets of the Group was 100%.

7 OTHER NON-CURRENT ASSETS

This category mainly includes the performance guarantees granted to customers, which were classified as non-current according to the respective contracts. They amount to 675.788 lei. The same category includes the green certificates that were delayed under GEO no. 57/2013, amounting to 839.434 lei and fully owned by the parent.

These assets are measured at cost and are tested for impairment annually.

At 31 December 2014, the performance guarantees are divided into current and non-current, as follows:

| | <u>Total</u> | <u>Under one year</u> | <u>Over one year</u> |
|-------------------------------|--------------|-----------------------|----------------------|
| Performance guarantees | 2.324.907 | 1.649.119 | 675.788 |

8 INVENTORIES

| | <u>31 December 2014</u> | <u>31 December 2013</u> |
|--|-------------------------|-------------------------|
| Raw materials | 7.985.739 | 6.649.860 |
| Finished goods and merchandise | 6.017.474 | 6.069.219 |
| Work in progress | 3.243.754 | 3.644.460 |
| Allowances for the impairment of inventories | (892.472) | (447.312) |
| Total | 16.354.495 | 15.916.227 |

The movement of allowances for the impairment of inventories is as follows:

| | <u>2014</u> | <u>2013</u> |
|------------------------------------|----------------|----------------|
| Balance at beginning of year | 447.313 | 95.836 |
| Allowances during the current year | 445.159 | 351.477 |
| Balance at end of year | 892.472 | 447.313 |

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Allowances were recorded in the amount of 365.836 lei for raw materials and slow moving inventories, and 526.636 lei for finished goods, respectively.

The group did not pledge inventory items to secure liabilities.

Of the total inventory recorded at 31 December 2014, 97,45% is owned by the parent.

9 TRADE RECEIVABLES

Receivables are recorded at nominal value and are accounted in the analytical accounting for each natural or legal person. The receivables denominated in foreign currency were measured based on the exchange rate applicable at the end of the period and the exchange rate difference was recognised as income or expense for the period.

| | 31 December 2014 | Liquidity period | |
|--|-------------------------|-------------------------|--------------------|
| | | under 1 year | over 1 year |
| Internal trade receivables | 50.790.669 | 37.460.185 | 13.330.484 |
| External trade receivables | 3.959.642 | 3.959.642 | - |
| Estimated trade receivables | 540.017 | 540.017 | - |
| Allowances for the impairment of trade receivables | (1.467.579) | (1.467.579) | - |
| Net trade receivables | 53.822.749 | 40.492.265 | 13.330.484 |

| | 31 December 2013 | Liquidity period | |
|--|-------------------------|-------------------------|--------------------|
| | | under 1 year | over 1 year |
| Internal trade receivables | 53.941.181 | 45.327.585 | 8.613.596 |
| External trade receivables | 4.007.247 | 4.007.247 | - |
| Estimated trade receivables | 2.286.643 | 2.286.643 | - |
| Allowances for the impairment of trade receivables | (1.440.094) | (1.440.094) | - |
| Net trade receivables | 58.794.977 | 52.577.828 | 8.613.596 |

The movement of allowances for the impairment of trade receivables is as follows:

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| | 2014 | 2013 |
|---|------------------|------------------|
| Balance at beginning of year | 1.440.094 | 985.106 |
| Impairment allowance recording-reversal | 48.057 | 479.494 |
| Impairment allowance write-down | (20.572) | (24.506) |
| Balance at end of year | 1.467.579 | 1.440.094 |

The Group presents in the category of receivables with liquidity period over 1 year the amounts arising from the purchase or service contracts concluded with customers under a supplier credit facility.

The balance of trade receivables from customers at 31 December 2014 was 9.610.708 lei and represents promissory notes issued by customers in favour of the parent under the contracts concluded.

At 31 December 2014, the doubtful accounts and disputes amount to 1.530.030 lei.

The Group did not record significant amounts related to receivables uncollected within the period provided for in the contracts with customers. The impairment recorded refers to amounts not collected from doubtful accounts or disputes for which a risk of failure to collect was estimated according to the policy adopted by the entity.

For the purpose of consolidation, mutual payables and receivables were offset.

10 OTHER CURRENT ASSETS

| | 31 December 2014 | 31 December 2013 |
|-------------------|-------------------------|-------------------------|
| Debtors | 698.169 | 603.529 |
| Accrued expenses | 1.957.550 | 1.287.256 |
| Suppliers debtors | 2.329.161 | 1.696.666 |
| Other assets | 1.369.392 | 96.252 |
| Total | 6.354.272 | 3.683.703 |

The accrued expenses of 1.957.550 lei mainly consist of rent paid in advance, insurance premiums for the civil liability of directors and various subscriptions.

Other assets also include the value of the VAT under settlement related to the supplier invoices issued in January 2015 for purchases made in 2014.

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11 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Year 2014 | Year 2013 |
|-------------------------------------|------------------|------------------|
| Initial balance at 1 January | 1.250.953 | 150.824 |
| Inflows | 13.941.630 | 10.611.081 |
| quoted shares | 10.410.082 | 5.785.612 |
| green certificates | 3.531.548 | 4.825.469 |
| Outflows | 14.968.583 | 9.510.952 |
| quoted shares | 11.437.035 | 4.685.483 |
| green certificates | 3.531.548 | 4.825.469 |
| Final balance at 31 December | 224.000 | 1.250.953 |

12 CASH AND CASH EQUIVALENTS

| | Balance at 31.12.2014 | Balance at 31.12.2013 |
|-----------------------------|-----------------------|-----------------------|
| petty cash | 47.217 | 26.186 |
| current accounts with banks | 31.400.321 | 15.551.464 |
| cash equivalents | 2.211 | 240.727 |
| Total | 31.449.749 | 15.818.377 |

13 SHARE CAPITAL

The structure of the shareholders that own over 10% of the share capital of the parent at 31 December 2014 is:

| SHAREHOLDER | 31 December 2014 | | 31 December 2013 | |
|-----------------|--------------------|------------|--------------------|------------|
| | NO. OF SHARES | % | NO. OF SHARES | % |
| PAS Association | 200.302.763 | 29,6289 | 200.346.774 | 29,6354 |
| SIF Oltenia | 168.510.083 | 24,9261 | 149.495.143 | 22,1134 |
| Natural persons | 196.184.794 | 29,0198 | 217.290.332 | 32,1417 |
| Legal persons | 111.041.064 | 16,4253 | 108.906.455 | 16,1095 |
| TOTAL | 676.038.704 | 100 | 676.038.704 | 100 |

The Group does not own bonds, redeemable shares or other portfolio securities.

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14 RESERVES

The **legal reserves** of the Group increased in 2014 by 373.906 lei following the set up of the legal reserve (5% of the accounting profit determined under Law no. 571/2003 as further amended and supplemented, and Law no. 31/1990 as further amended and supplemented).

Revaluation reserves amount to 83.165.003 lei at 31 December 2014. They decreased by 1.960.477 lei compared to the balance at the beginning of 2014.

The decrease was due to the transfer of the revaluation reserve to retained earnings following the discard of assets or as these were depreciated.

At the end of 2014, the Group records **other reserves** in the amount of 55.090.076 lei. The increase is due to the distribution of the profit for the year 2013, amounting to 12.691.819 lei.

15 PROFIT/LOSS CARRIED FORWARD

The **profit/loss carried forward** recorded in the account 117 at 31 December 2014 consisted of an accounting profit of 1.581.699 lei, of which:

- 2.883.240 lei transfer of reserves from revaluation related to the depreciated or discarded assets
- (1.301.541) lei loss carried forward

At 31 December 2014, the Group recorded a **net profit** of 7.581.605 lei, of which:

- attributable to the parent: 7.564.368
- attributable to non-controlling interests: 17.237

16 LONG-TERM LOANS

The Group did not have long-term loans at 31 December 2014.

The parent has several loan contracts approved at 31 December 2014. Their situation is presented in these financial statements. There were no outstanding liabilities related to repayable loans at 31 December 2014.

Long-term loans only include guarantees received from customers.

The **guarantees received** at 31 December 2014 amount to 2.983.381 lei and will be regularised under the contract terms.

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| | Total | Under one year | Over one year |
|----------------------------|--------------|-----------------------|----------------------|
| Guarantees received | 2.983.381 | 1.751.367 | 1.232.014 |

17 DEFERRED INCOME

| 31 December 2014 | Total | under one year | over one year |
|-------------------------|------------------|-----------------------|----------------------|
| Investment subsidies | 5.392.305 | 165.773 | 5.226.532 |
| Deferred income | 2.456.914 | 412.323 | 2.044.591 |
| Total | 7.849.219 | 578.096 | 7.271.123 |

| 31 December 2013 | Total | under one year | over one year |
|-------------------------|------------------|-----------------------|----------------------|
| Investment subsidies | 5.560.887 | 167.480 | 5.393.407 |
| Deferred income | 2.527.755 | 865.614 | 1.662.141 |
| Total | 8.088.642 | 1.033.094 | 7.055.548 |

In 2012, the parent benefited from an investment subsidy of 5.997.788 lei granted for the modernisation of the micro-hydroelectric plant in Brodina (Suceava), which will be transferred to revenue concomitantly with the recording of the amortisation of the non-current assets purchased under this project.

18 PROVISIONS

| Name | Balance 01.01.2014 | Inflows (setup) | Outflows (cancellation) | Balance 31.12.2014 |
|--|-------------------------------|----------------------------|------------------------------------|-------------------------------|
| Provisions for performance guarantees to customers | 520.000 | 1.090.000 | 520.000 | 1.090.000 |
| Provisions for liabilities and charges | 4.500 | - | - | 4.500 |
| Provision for annual leave not taken | 200.000 | 115.000 | 200.000 | 115.000 |
| TOTAL | 724.500 | 1.205.000 | 720.000 | 1.209.500 |

The Group has concluded contracts for the supply of lighting units with warranty, for long periods, i.e. 2-4 years. The contracts do not provide for a percentage or amount of the performance guarantee, therefore it cannot be quantified. At the end of each year, the costs incurred for the products within warranty are analysed and the provision is made according to the estimates.

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19 TRADE PAYABLES AND OTHER LIABILITIES

| | 31 December 2014 | 31 December 2013 |
|--|-------------------------|-------------------------|
| Internal trade payables | 12.720.536 | 7.189.347 |
| External trade payables | 1.780.276 | 2.250.809 |
| Estimated trade payables | 11.320.545 | 7.338.050 |
| Total | 25.821.357 | 16.778.206 |
| | 31 December 2014 | 31 December 2013 |
| Advances received from customers | 10.449.801 | 12.490.913 |
| Salaries and social security contributions | 2.810.525 | 6.611.541 |
| Other liabilities | 8.448.176 | 5.311.959 |
| Total | 21.708.502 | 24.414.413 |

Liabilities are recorded at nominal value and are accounted in the analytical accounting for each natural or legal person. The liabilities denominated in foreign currency were measured based on the exchange rate applicable at the end of the period and the exchange rate difference was recognised as income or expense for the period.

The Group does not have significant outstanding trade payables.

Most of the amounts collected as advances received from customers are related to the electricity supply activity, under contractual terms.

The Group does not have outstanding liabilities to employees and the state budget; the amounts presented represent liabilities for December 2014, which are paid on the due date, in January 2015.

For the purpose of consolidation, mutual liabilities and receivables were offset.

20 DEFERRED TAX

| Year 2014 | Deferred tax assets at 01.01.2014 | Deferred tax assets at 31.12.2014 | Deferred tax liabilities at 01.01.2014 | Deferred tax liabilities at 31.12.2014 |
|---------------------------------|--|--|---|---|
| Tangible assets | - | - | 803.735 | 1.267.548 |
| Receivables and other assets | - | 258.124 | - | - |
| Tax-exempt reserves | - | - | 494.555 | 756.181 |
| TOTAL | - | 258.124 | 1.298.290 | 2.023.729 |

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The deferred income tax resulted from different accounting and tax depreciation methods, as follows: for group 2 of tangible assets (plant and machinery, motor vehicles – the accounting depreciation method is the straight-line method, while the tax depreciation is accelerated). The deferred income tax also resulted from differences from the revaluation of tangible assets recorded after 1 January 2014, which are taxed concomitantly with the deduction of the tax depreciation, as well as from interest income collected under the supplier credit contracts concluded by the parent.

21 REVENUE

| | 31 December 2014 | 31 December 2013 |
|---|-------------------------|-------------------------|
| Revenue | 428.024.142 | 400.808.764 |
| - Revenue from sold production | 96.147.639 | 93.411.632 |
| - Revenue from sale of goods | 331.876.503 | 307.397.132 |
| Variation in stocks of finished goods and work in progress | 9.261.518 | 3.890.089 |
| Work performed by entity and capitalised | 1.991.283 | 6.347.728 |
| Other income | 8.503.696 | 8.200.552 |
| - Revenue from subsidies | 3.545.191 | 4.825.469 |
| - Revenue from the revaluation of investment property | - | 3.493 |
| - Other income | 1.025.522 | 977.485 |
| - Financial income | 3.932.983 | 2.394.105 |
| Total revenue | 447.780.639 | 419.247.133 |

The main categories of products that generate revenue are:

- Electricity distribution and metering equipment
- Electricity from renewable sources (produced in small power hydroelectric plants - CHEMA)
- Electrical, electronic, automotive subassemblies, etc.
- Tools and molds
- Metal and plastic subassemblies
- Railway traffic safety equipment
- LED lighting units

The main services that generate revenue are:

- Electricity supply

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- Rental of premises for offices, industrial sites, land, and supply of utilities
- Supply of cleaning services
- Supply of fire prevention and extinction services

For the purpose of consolidation, mutual transactions were offset.

22 EXPENSES

| | 31 December 2014 | 31 December 2013 |
|--|-------------------------|-------------------------|
| Expenses related to materials | 339.202.438 | 294.107.423 |
| - Raw materials and consumables | 46.166.600 | 36.235.093 |
| - Goods purchased for resale | 290.446.448 | 255.650.330 |
| - Electricity, heating and water | 2.589.390 | 2.222.000 |
| Expenses related to employee benefits | 35.652.105 | 38.067.331 |
| - Salaries | 28.301.958 | 30.056.206 |
| - Other personnel expenses | 7.350.147 | 8.011.125 |
| Other expenses | 53.239.094 | 57.353.034 |
| Postage | 490.737 | 840.841 |
| Rental | 247.671 | 193.326 |
| Advertisement and entertainment | 1.225.794 | 1.599.083 |
| Insurance | 601.201 | 616.829 |
| Transport and travel | 2.047.527 | 1.331.493 |
| Other operating expenses | 46.501.546 | 51.720.231 |
| Financial expenses | 2.124.618 | 1.051.231 |
| Expenses related to depreciation and impairment | 10.557.463 | 10.195.068 |
| - Depreciation | 9.599.785 | 8.488.578 |
| - Net impairment | 957.678 | 1.706.490 |
| Total expenses | 438.651.100 | 399.722.856 |

For the purpose of consolidation, mutual transactions were offset.

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23 FINANCIAL EXPENSES AND INCOME

| | 31 December 2014 | 31 December 2013 |
|---|-------------------------|-------------------------|
| Foreign exchange losses | 1.923.180 | 972.034 |
| Foreign exchange gains | 1.991.317 | 1.037.948 |
| Net foreign exchange difference | 68.137 | 65.914 |
| Interest expense | 12.529 | 55.489 |
| Interest income | 314.602 | 489.807 |
| Net interest difference | 302.073 | 434.318 |
| Dividends received | - | - |
| Income from shares sold | 369.157 | 107.217 |
| Other financial expenses | 188.909 | 23.709 |
| Other financial income | 1.257.907 | 866.350 |
| Net difference other financial income and expenses | 1.068.998 | 842.641 |
| Financial result | 1.808.365 | 1.450.090 |

24 INCOME TAX

Settlement of profit before tax and income tax expenses in the profit and loss account:

| Indicator | 31 December 2014 |
|--|-------------------------|
| Accounting profit | 8.137.494 |
| Deductions | (9.909.672) |
| Non-taxable income | (13.813.838) |
| Non-deductible expenses | 25.316.460 |
| Taxable profit | 9.730.444 |
| Tax loss from previous years | 145.931 |
| Other items | - |
| Current income tax | 1.355.294 |
| Income tax reduction | (13.049) |
| Income tax due at end of period | 1.342.245 |
| Income tax paid during the year | (2.014.229) |
| Income tax payable/recoverable | (671.984) |

The total receivable related to the current income tax amounts to 773.662 lei and includes 671.984 lei income tax recoverable for 2014 and 101.678 lei income tax recoverable for the previous years.

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25 AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

| | <u>31 December 2014</u> | <u>31 December 2013</u> |
|--------------|-------------------------|-------------------------|
| Group | 698 | 666 |
| Parent | 626 | 601 |

The expenses incurred for salaries and related taxed in 2014 and 2013 are:

| | <u>31 December 2014</u> | <u>31 December 2013</u> |
|--|-------------------------|-------------------------|
| Expenses related to salaries | 28.301.958 | 30.056.206 |
| of which the parent | 26.439.930 | 28.339.445 |
| Expenses related to social security contributions | 7.350.147 | 8.011.125 |
| of which the parent | 6.855.553 | 7.533.514 |
| Total | 35.652.105 | 38.067.331 |
| of which the parent | 33.295.483 | 35.872.959 |

The Group does not have a special employee pension scheme and contributes to the national pension system under the laws in force.

The Group does not have contractual obligations to former managers and directors and did not grant advances or loans to the current managers and directors.

The Group did not undertake future obligations of the nature of guarantees on behalf of its directors.

26 TRANSACTIONS WITH RELATED PARTIES (the parent company in relation to its subsidiaries)

| | <u>31 December 2014</u> | <u>31 December 2013</u> |
|------------------------------------|-------------------------|-------------------------|
| Sales of goods and services | | |
| Electromagnetica Goldstar | 66.775 | 4.182 |
| Electromagnetica Fire | 16.454 | - |
| Electromagnetica Prestserv | 20.485 | - |
| Procetel | 32.574 | 118.233 |
| Total | 136.288 | 122.415 |

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| | <u>31 December 2014</u> | <u>31 December 2013</u> |
|---|-------------------------|-------------------------|
| Purchase of goods and services | | |
| Electromagnetica Goldstar | 208.816 | 197.279 |
| Electromagnetica Fire | 559.353 | 332.107 |
| Electromagnetica Prestserv | 602.255 | 585.553 |
| Procetel | 1.000.277 | 1.115.358 |
| Total | 2.370.701 | 2.230.297 |
| | | |
| | <u>31 December 2014</u> | <u>31 December 2013</u> |
| Trade payables and other liabilities | | |
| Electromagnetica Goldstar | 28.584 | 4.005 |
| Electromagnetica Fire | 55.714 | 500 |
| Electromagnetica Prestserv | 63.749 | 63.252 |
| Procetel | - | - |
| Total | 148.047 | 67.757 |

At 31 December 2014, the parent company did not have outstanding receivables in relation to the related companies.

The sales to the related companies (subsidiaries) comprise: deliveries of various materials, rents, utilities. The purchases from the related companies (subsidiaries) comprise: rents, utilities, cleaning and transportation services, fire prevention and extinction services.

The Group does not have contractual obligations to former managers and directors and did not grant advances or loans to the current managers and directors.

27 INFORMATION BY OPERATING SEGMENTS

The Group used as the aggregation criterion for the reporting by operating segments the nature of the regulatory framework and identified the following operating segments for which it presents separate information:

- Licensed activity – electricity supply and production
- Unlicensed activity

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The information by operating segments is reported according to the activities of the Group. The assets and liabilities by operating segments include both the items directly attributable to those segments and the items that can be allocated on a reasonable basis.

| Year 2014 | Unlicensed activity | % Total Group | Licensed activity | % Total Group | Total Group |
|-----------------------------|----------------------------|----------------------|--------------------------|----------------------|--------------------|
| Net profit | 5.136.008 | 67,90 | 2.428.360 | 32,1 | 7.564.368 |
| Total assets | 146.832.162 | 79,80 | 184.004.406 | 20,2 | 330.836.568 |
| Total liabilities | 24.976.860 | 41,74 | 34.867.461 | 58,26 | 59.844.321 |
| Customer revenue | 94.800.409 | 22,15 | 333.223.733 | 77,85 | 428.024.142 |
| Interest income | 314.602 | 100 | - | - | 314.602 |
| Impairment and depreciation | 7.577.881 | 71,78 | 2.979.582 | 28,22 | 10.557.463 |
| Year 2013 | Unlicensed activity | % Total Group | Licensed activity | % Total Group | Total Group |
| Net profit | 7.151.614 | 44,29 | 8.996.104 | 55,71 | 16.147.718 |
| Total assets | 190.384.626 | 59,56 | 129.262.345 | 40,44 | 319.646.971 |
| Total liabilities | 27.614.900 | 51,91 | 25.585.096 | 48,09 | 53.199.996 |
| Customer revenue | 91.863.037 | 22,91 | 309.025.727 | 77,09 | 400.888.764 |
| Interest income | 489.807 | 100 | - | - | 489.807 |
| Impairment and depreciation | 7.043.867 | 69,09 | 3.151.201 | 30,91 | 10.195.068 |

Licensed activity

Electricity supply service

The supply of electricity is regulated by ANRE. The company has been licensed as a supplier since 2001; the licence was renewed in 2013 under the provisions of the new energy law (Law no. 123/2012) for another 10 years.

The supply of electricity was carried out in a challenging environment marked by the decrease in energy consumption, the change of the production structure at national level and the amendments to legislation.

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The increasing share of the wind and solar energy reflected in an increased volatility of the volumes and prices on the day-ahead market (DAM) and the increased share of short-term energy purchase contracts, to the detriment of long-term contracts. These circumstances led to the frequent renegotiation of supply contracts. In this risky environment, the Group focused on retaining its customers and diversifying its customer portfolio in order to create a balanced mix of large and small customers from different economic sectors. In 2014, about 7% of the green certificates necessary for the entire portfolio of supply customers were covered by the certificates obtained for the production of energy by means of the company's own micro-hydroelectric plants.

The turnover related to the energy supply activity increased in 2014 by 7,8% due to the increase in the energy quantities supplied to customers. The decreasing trend in customer consumption was compensated by the expansion of the portfolio to over 400 supply customers; therefore, the total quantity of supplied energy increased by 14%. A proactive approach was required given the increased customer mobility on the market (migration from a supplier to another) and the increase of the level of unpredictability. We mention that Electromagnetica is the Balancing Responsibility Party (BRP) for its customers. The supply activity improved through the profiling and adjustment of the energy required by customers at peak load hours and the purchase to this effect of 25 MW power from photovoltaic sources.

Electricity production

Energy production is regulated by ANRE; the company has been a licensed producer since 2007. In 2014, total investments amounted to 455 thousand lei as the investments in previous years only made necessary works of a smaller scale, among which the modernisation of the fish ladder at CHEMP Ehreste and Brodina 1, the completion of the fish ladder at CHEMP Bilca 3, the installation of alarm and anti break-in systems for all the plants, the purchase of a movable lifting installation, etc. Thanks to better hydrological conditions, the electricity production in 2014 reached an all-time high of 14.257 MWh, higher by 18,66% than the production in 2013. In 2014, revenues decreased by 13,2% compared to 2012 due to the decrease in electricity average prices on the day-ahead market, and in particular due to the decrease in the price of green certificates and the effects of the application of GEO no. 57/2013, which stipulates the trading delay of one green certificate for each MWh produced in new micro-hydroelectric plants.

For the year 2015, we estimate a production of 12.200 MWh and 22.500 green certificates.

Unlicensed activity

LED lighting units, systems and solutions

In 2014, the production of LED lighting units maintained its increasing trend. Almost half of the Group production is represented by this category of products. Export sales became more significant. LED

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lighting became better known and entered the sector of public street lighting. The main sectors in which LED lighting solutions were applied are:

- Commercial premises (supermarkets, commercial galleries, gas stations, warehouses, stands, parks, showcases, advertising panels);
- Industrial premises (plants, warehouses, etc.);
- street lighting;
- offices;
- public buildings (institutions, hospitals, schools);
- residential sector.

The competitive advantage of LED lighting equipment is due to energy savings, long service life (over 50.000 hours) and minimum maintenance costs. LED lighting bodies provide quality lighting, are environmentally friendly and generate low heat emissions. LED lighting bodies are modular, thus very flexible, and are designed to replace traditional lighting systems. The revenues obtained in 2014 exceeded by 34,6% the revenues for the previous year. The domestic market is increasingly considering LED lighting solutions; however, as this technology is new, the products are not always differentiated by the quality/price criterion. The new range of street lighting bodies opens the way to a new market segment with a high potential. The LED lighting bodies, systems and solutions are mainly distributed on the market directly by the Group, by means of the division set up within the commercial department of the parent company.

Electricity distribution and metering equipment

The entire production of energy meters and metering and distribution equipment is addressed to the domestic market. The ENERGSys system is a well-established product on this market, currently covering approx. 50.000 households and small economic operators in over 40 cities and other localities. Over 25 projects for the installation of ENERGSys systems were successfully completed between 2005 and 2014. In 2014, the decrease in the production of energy metering systems was due to the delays in the organisation of new calls for tenders by distributing companies. The further success of this product depends on the capacity to develop the system according to the new requirements envisaged by the Romanian Energy Regulatory Authority (ANRE) through the adoption of a new electricity metering code in the near future.

Injection mould plastic subassemblies

The expansion of the customer base, both domestic and external, led to another year of increase in the production of injection mould plastic subassemblies. Revenues increased by 10,94% compared to the previous year. Production capacity utilisation improved compared to the previous period due to the recent

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purchases of new equipment for both the injection processes and the manufacture of dies for injection mould plastic.

Molds

The sustained injection mould plastic activity also had a positive impact on the manufacture of tools and dies which recorded a turnover increase compared to the previous year. The investments made in 2013 and 2014 increased the production capacity. The expansion of the LED lighting units production and the introduction of new manufacturing technologies require more tools and devices.

Low voltage electrical switchgear

The production of low voltage electrical switchgear (support for ABB fuses) was an element of continuity in the production intended for export. This group of products represents 6,9% of the production related turnover.

Railway traffic safety components

As the Romanian railway network is not extending and there are no modernisation projects, the sales of these products are limited to the demand of spare parts for the maintenance of the existing railway transport infrastructure. Railway traffic safety components are among the oldest products of the parent company and only account for 3,7% of the company production.

Other industrial products

This category includes the production of subassemblies for motor vehicles, electrical and electronic subassemblies, metal works, etc.; their total share in 2014 was 3,4% of the production, slightly decreasing compared to the previous year.

Renting and utilities supply services

The decrease in the turnover related to the renting activity reduced due to the decrease in the average rental rate by the adjustment of rates to the market price, under the circumstances of a better occupation level. The decreasing trend of revenues will be maintained in the following period due to the renegotiation of expired rental agreements and the reduced activities of certain tenants or their migration to premises with a lower price/m² given the increase in the offer of premises for rent on the market. Given that the Group has to follow the trends of the real estate market, i.e. the decrease in rental rates, additional efforts must be undertaken by the Group in order to mitigate the effects and maintain itself on the market by reconsidering the facilities granted.

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28 RISK MANAGEMENT

The Group is exposed to the following risks:

Equity risk

The goals of the Group with respect to capital management aim to ensure the continuity of the entity's business to create value for its shareholders and benefits for the other stakeholders and maintain an optimal capital structure to reduce the related costs. The capital structure within the Group consists of equity attributable to shareholders (including the share capital, reserves and retained earnings) and liabilities (including the loans). The Group management reviews regularly the capital structure. As part of this process, the management analyses the cost of capital and the risks related to each category of capital. In order to maintain or adjust the capital structure, the Group can adjust the dividends paid to shareholders, issue new shares or sell assets. The main goal of the Group with regard to capital management is to secure and maintain a favourable credit rating and high-performance capital indicators. The Group monitors capital based on the debt ratio. This indicator is calculated as the ratio of the net debt and the total capital employed. The net debt is calculated as the sum of the total loans, total suppliers and other liabilities (as presented in the statement of the financial position) less the cash and cash equivalents. The total capital employed is determined as the sum of the net debt and equity (as presented in the financial position).

The debt ratio at 31 December 2014 was:

| | 31 December 2014 | 31 December 2013 |
|---------------------------------|-------------------------|-------------------------|
| Total loans | - | - |
| Suppliers and other liabilities | 47.529.859 | 41.192.619 |
| Less: Cash and cash equivalents | (31.449.749) | (15.818.377) |
| Net Liabilities/(Assets) | 16.080.110 | 25.374.242 |
| Equity | 270.992.247 | 266.176.532 |
| TOTAL CAPITAL EMPLOYED | 287.072.357 | 291.550.774 |
| Debt ratio | 5,60% | 8,70% |

Equity risk management aims to ensure the capacity of the company to carry out its activity in good conditions through the optimisation of the capital structure (equity and liabilities). The analysis of the

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capital structure is focused on the cost of capital and the risk associated to each category. To maintain an optimal capital structure and an appropriate debt ratio, the company proposes to its shareholders an adequate dividend policy, able to secure own sources of funding, the issue of new shares or the sale of assets.

Credit risk

Credit risk is the possibility that contracting parties breach their contractual obligations resulting in financial loss for the company. When possible and allowed by market practices, the Group requests guarantees. Trade receivables derive from a wide range of customers operating in various fields of activity and different geographical areas. To counteract this risk factor, the Group applied restrictive policies to the delivery of products to doubtful customers. The commercial policy aims to reduce the ~~number of days~~ agreed under contract for the payment of receivables. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency; therefore, the company is paying more attention to the creditworthiness and financial discipline of its customers. It should be mentioned that the currently established practice on the electricity supply market is to pay for the energy after the month of consumption, without advance payments and letters of guarantee. The supply customers of the Group follow this trend.

Market risk

The market risk consists of: the risk of changes in the interest rates, exchange rate, and merchandise purchase price.

The risk related to the **changes in interest rates** is controlled due to the Group's investment policy according to which investments are exclusively covered by own sources of funding, therefore credit lines are only used for short periods.

The Group is exposed to **foreign exchange risk** because the supply of materials mainly comes from import and the share of the export increased. To limit the effect of foreign exchange, the payment schedule was correlated with the proceeds in foreign currency.

The Group monitors and manages on a permanent basis its exposure to exchange rate differences by including in the sale contracts with its customers which provide for a collection period over an year clauses for the regularisation of foreign exchange differences that exceed +/-5% (between the invoice issuing and collection dates). The foreign currencies most frequently used in transactions are EUR and USD. The assets denominated in foreign currencies are represented by customers and available cash in foreign currency. The liabilities denominated in foreign currency are represented by suppliers. At 31 December 2014, their situation is as follows:

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| | Assets | Liabilities |
|-----|---------------|--------------------|
| EUR | 2.227.598 | 410.604 |
| USD | 9.310 | 73.906 |

The analysis of the foreign exchange risk sensitivity for a +/- 10% variation in the exchange rate shows and impact on the gross result of the period of +/- 790.579 lei (+/-10,43%).

This analysis shows the exposure to the translation risk at the end of the year; however, the exposure during the year is permanently monitored and managed by the Group.

The risk of price increase is determined by the changes in the prices of raw materials and production supplies which required a permanent review of cost prices. To maintain the profitability of certain products, action was taken at the level of suppliers in order to control prices and the related technological processes were improved.

Liquidity and cash flow risk

The Group cash flow department prepares forecasts on the liquidity reserve and maintains the appropriate level of credit facilities in order to be able to prudently manage the liquidity and cash flow risks. To this effect, the mortgage agreements in favour of the banks with which the company has open credit lines and letters of bank guarantee were extended to ensure that we are able to perform our obligations in case of short-term cash deficit. Although these credit lines were accessed infrequently and at a low rate, their ceiling was maintained as high as possible. At the same time, investments were limited to those with direct impact on the turnover. If the optimal conditions in terms of liquidities and cash flow were not met, the investments were postponed or limited to the own sources of funding.

Political and regulatory risk

Political decisions on the energy policy that are made in the absence of an assessment of their impact on local industry represent an actual risk for the smooth running of the company. For instance, if the state transfers the control of the electricity distributors to multinational companies, the result will be a purchase policy for energy metering and distribution equipment that is detrimental to the suppliers on the domestic market. At the same time, its activity on regulated markets such as the energy market exposes the Group to regulatory risk. The possible amendments to Law no. 220/2008 promoting the production of energy from renewable sources (green certificates) or its implementing rules may lead to uncertainty with regard to the period of return on the investments made, in progress or future.

Calamity risk

The production of electricity in low power plants without dams is subject to destruction risk caused by floods. Under these circumstances, the Group concluded insurance policies to protect MHPs and against disasters.

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This note presents information about the exposure of the Group to each of the above risks, the goals of the Group, its policies and processes for risk assessment and management and its procedures for capital management.

General framework for risk management

The Board of Directors of the parent and the directors of its related companies have the general responsibility for the establishment and supervision of the risk management framework at Group level.

The activity is governed by the following principles:

- a) the principle of delegation;
- b) the principle of decision-making autonomy;
- c) the principle of objectivity;
- d) the principle of investor protection;
- e) the principle of promotion of the stock market development;
- f) the principle of the active role.

The management is also responsible for the review and approval of the strategic, operational and financial plan of the Group and the Group corporate structure.

The Group's risk management policies are defined to ensure the identification and analysis of the risks the Group is confronted with, determine the appropriate limits and control and monitor the risks and compliance with the limits set. The risk management policies and systems are regularly reviewed to reflect the changes occurred in the market conditions and the activities of the Group. Through its training and management standards and procedures, the Group aims to develop an orderly and constructive control environment where all employees understand their roles and duties.

The internal audit of the Group entities supervises the manner in which the management monitors the compliance with the risk management policies and procedures and reviews the appropriateness of the risk management framework against the risks the entities are confronted with.

29 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At 31 December 2014, the Group had the following commitments for bank loans and guarantee agreements/loan contracts concluded with the financing banks (BCR, BRD):

- *revocable credit line*, BCR of 9.000.000 lei, uncommitted at 31 December 2014.

Guarantees: 1st, 2nd, 3rd ranking mortgage on land outside the built-up area, and 1st ranking mortgage on the accounts opened with BCR.

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- *non-cash guarantee agreement with BCR* of 5.370.000 lei, of which 4.469.256 lei committed at 31 December 2014;

Guarantees: 2nd ranking mortgage on the accounts opened with BCR

- *non-cash guarantee agreement with BCR* of 30.000.000 lei, of which 25.676.841 lei committed at 31 December 2014.

Guarantees: 3rd ranking mortgage on the accounts opened with BCR, 1st and 4th ranking mortgages on property.

- *multiproduct credit facility with BCR* (cash and non-cash) of 30.000.000 lei, of which 20.588.811 lei non-cash committed at 31 December 2014.

Guarantees: 1st ranking mortgage on property (land, building and access roads)

- ~~*guarantee agreement*~~ authorised overdraft of 15.000 lei.

Guarantees: collateral cash deposit of 15.000 lei

- *guarantee agreement* authorised overdraft of 75.000 lei.

Guarantees: collateral cash deposit of 75.000 lei

The commitments received from customers and tenants as letters of guarantee at 31 December 2014 amount to 9.090.591 according to contract terms.

Contingent liabilities

Litigation

The Group is involved in lawsuits deriving from its ordinary course of business. The Company management considers that, except for the amounts already accounted for in these financial statements as provisions or allowances for asset impairment and described in the notes to these financial statements, other lawsuits will not have significant negative effects on the Company's economic results and financial standing.

European Commission investigation

In 2012, the European Commission started an investigation on the contract for electricity supply concluded between the parent company and the energy producer Hidroelectrica SA. At 31 December 2014, this investigation was not completed and the management of the parent considers that it is not possible to estimate properly its result. Therefore, no provision was recorded in the financial statements for this case.

30 SUBSEQUENT EVENTS

There were no subsequent events.