



FINANCIAL STATEMENTS

SEPARATE

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

SC ELECTROMAGNETICA SA

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SEPARATE 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.
SEPARATE 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	210.298.840	213.923.671
Investment property	5	907.248	907.248
Intangible assets	6	1.728.797	720.163
Investments in related entities	7	3.967.606	3.967.606
Other long-term non-current assets	8	1.515.222	1.016.700
Deferred tax assets		258.124	-
Total non-current assets		218.675.837	220.535.388
Current assets			
Inventories	9	15.936.949	15.386.542
Trade receivables	10	53.390.194	58.292.732
Cash and cash equivalents	13	28.226.288	13.437.768
Financial assets at fair value through profit or loss	12	44.800	407.478
Other current assets	11	6.360.202	3.662.397
Current tax asset		780.927	-
Total current assets		104.739.360	91.186.917
Total assets		323.415.197	311.722.305
EQUITY AND LIABILITIES			
Equity			
Share capital	14	67.603.870	67.603.870
Reserves	15	186.991.790	175.925.186
Retained earnings	16	10.457.093	16.918.588
Other components of equity		(1.126.674)	(1.404.363)
Total equity attributable to company shareholders		263.926.079	259.043.281
Non-current liabilities			
Long-term loans	17	1.232.014	1.407.752
Deferred income	18	7.271.123	7.055.548
Deferred tax liabilities	21	2.023.099	1.298.290
Total non-current liabilities		10.526.236	9.761.590

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Current liabilities			
Trade payables and other liabilities	20	47.177.095	40.700.329
Deferred income	18	576.287	1.033.094
Provisions	19	1.209.500	724.500
Current tax liability	25	-	459.511
Total current liabilities			42.917.434
Total liabilities			52.679.024
Total equity and liabilities		323.415.197	311.722.305

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

Eugen Scheusan
Chief Executive Officer

Ilie Frasineanu
Chief Financial Officer

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

	<u>Note</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
Revenue	22	426.040.897	399.376.154
Other income	24	8.695.372	7.914.729
Variation in stocks of finished goods and work in progress	22	9.261.516	3.890.089
Work performed by entity and capitalised	22	1.991.283	6.347.728
Raw material and consumables used	23	(338.381.729)	(293.238.504)
Expenses related to employee benefits	23	(33.295.483)	(35.872.959)
Expenses related to depreciation and impairment	23	(10.297.549)	(9.945.207)
Other expenses	24	(54.987.462)	(58.958.242)
Profit before tax		9.026.845	19.513.788
Current income tax expense	25	(1.242.495)	(3.125.709)
Deferred income tax expense	21	(205.689)	(114.225)
Profit for the period		7.578.661	16.273.854
Other components of comprehensive income			
of which:			
other comprehensive income items that cannot be reclassified in the profit and loss account. of which:			
- Revaluation surplus for tangible assets		274.096	3.002.162
- Deferred tax recognised in equity		(43.855)	(494.555)
Comprehensive income for the period		7.808.902	18.781.461
Basic/diluted earnings per share		0.0116	0.0240

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S.C ELECTROMAGNETICA S.A.
SEPARATE 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	Total equity
Balance at 1 January 2014	67.603.870	16.918.588	79.297.662	40.149.566	56.477.958	(1.404.363)	259.043.281
Total comprehensive income for the period							
Profit or loss for the period	-	7.578.661	-	-	-	-	7.578.661
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	-	-	274.096	-	-	(260.996)	13.100
Transactions with shareholders recognised directly in equity							
Transfer of the retained earnings to reserves	-	(13.569.700)	-	12.659.892	371.123	538.685	-
Dividends distributed to shareholders	-	(2.704.155)	-	-	-	-	(2.704.155)
Retained earnings from correction of errors	-	(4.808)	-	-	-	-	(4.808)
Balance at 31 December 2014	67.603.870	10.457.093	77.333.251	52.809.458	56.849.081	(1.126.674)	263.926.079

S.C ELECTROMAGNETICA S.A.
SEPARATE 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	Total equity
Balance at 01 January 2013	192.976.062	(181.545.168)	76.940.272	96.900.910	55.568.150	1.814.806	242.655.031
Total comprehensive income for the period	-	16.273.854	-	-	-	-	16.273.854
Profit or loss for the period	-	16.273.854	-	-	-	-	16.273.854
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	-	-	3.002.162	-	-	(183.571)	2.818.553
Transactions with shareholders recognised directly in equity	-	(13.251.743)	-	12.463.772	909.808	(121.837)	-
Transfer of the retained earnings to reserves	-	(13.251.743)	-	12.463.772	909.808	(121.837)	-
Dividends distributed to shareholders	-	(2.704.194)	-	-	-	-	(2.704.156)
Covering of the loss from the restatement of financial statements of reserves	(125.372.192)	197.501.067	-	(69.215.114)	-	(2.913.761)	-
Balance at 31 December 2013	67.603.870	16.918.588	79.297.662	40.149.566	56.477.958	(1.404.363)	259.043.281

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

Eugen Scheusan
Chief Executive Officer

Ilie Frasineanu
Chief Financial Officer

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

	<u>Note</u>	<u>Year 2014</u>	<u>Year 2013</u>
Cash flows from operating activities			
Cash receipts from customers		501.590.609	476.689.292
Payments to suppliers		(389.017.025)	(387.168.023)
Payments to employees		(35.765.260)	(32.575.668)
Other operating activities		(51.900.074)	(41.631.343)
Cash from operating activities		<u>24.908.250</u>	<u>15.314.258</u>
Interest paid		(17.271)	(55.130)
Income tax paid		(2.482.933)	(1.143.612)
Net cash from operating activities		<u>24.708.416</u>	<u>14.115.516</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		265.078	411.029
Dividends received		646.643	545.907
Net cash from investing activities		<u>(5.319.155)</u>	<u>(15.621.137)</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		(2.478.185)	(2.429.112)
Effect of exchange rate changes on loans and liabilities		177.815	(81.352)
Net cash from financing activities		<u>(2.300.370)</u>	<u>(2.510.464)</u>
Cash and cash equivalents net increase/decrease		<u>14.788.521</u>	<u>(4.016.085)</u>
Cash and cash equivalents at beginning of period	13	<u>13.437.767</u>	<u>17.453.852</u>
Cash and cash equivalents at end of period	13	<u>28.226.288</u>	<u>13.437.767</u>

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

Eugen Scheusan
Chief Executive Officer

Ilie Frasinianu
Chief Financial Officer

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

1 OVERVIEW

S.C. ELECTROMAGNETICA S.A. (the "Company") is organised under the laws of Romania. Electromagnetica was set up in 1930 and carries out activities in several sectors; the most important are:

- production of electricity from renewable sources (produced in small power hydroelectric plants - CHEMA);
- supply of electricity;
- production of LED lighting systems, tools, and molds;
- rental of premises for offices, industrial sites, land, and supply of utilities.

The production processes and products of Electromagnetica were certified under the international quality assurance standards. The main products 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 systems

The Company is headquartered in Calea Rahovei nr. 266-268 sector 5 Bucharest.

Electromagnetica is listed on the Bucharest Stock Exchange (symbol ELMA). The prices per share can be analysed as follows:

	2014	2013
- minimum price	0,1875	0,1820
- maximum price	0,2375	0,2350
- average price	0,2148	0,2136

The evolution of the average number of employees of Electromagnetica was as follows:

	2014	2013
Average number of employees	626	601

These financial statements are the separate financial statements compliant with **IAS 27 - Separate Financial Statements** prepared by Electromagnetica SA on 31 December 2014. The Company also prepares consolidated financial statements as it has investments in subsidiaries.

The details of the Company's investments in subsidiaries at 31 December 2014 and 2013 are:

Name of subsidiary	No. of securities	Ownership and voting right percentage (%)	Value
Electromagnetica Goldstar SRL	2.650	100%	3.126.197
Electromagnetica Prestserv SRL	295	98,333%	29.500
Electromagnetica Fire SRL	799	99,875%	79.900

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Procetel SA	42.483	96,548%	732.008
TOTAL			3.967.605

2 APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New or revised standards and interpretations mandatory for the Company 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 management of Electromagnetica SA 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.

The Company is not involved in any joint venture. IFRS 11 does not have a significant impact on the financial statements as the Company is not associated in joint venture arrangements.

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- **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 separate structured entities. The adoption of IFRS 12 does not significantly affect the disclosure of the information included in the separate financial statements 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 separate financial statements.

- **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.

- **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

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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 separate financial statements, as the entity is not an investment group.

- **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 Company because it has no offsetting agreements in force. As in previous periods, the Company 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 14). 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. These amendments do not significantly affect these financial statements.

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- 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.
- **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. These amendments do not significantly affect these financial statements.

IASB standards and interpretation not yet effective

- **IFRS 9 – Financial Instruments**, issued in November 2009 (effective as of 1 January 2015), not yet adopted by the EU. 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. The standard is not applicable before 1 January 2015; however, it can be applied prior to this date. The management has not yet analysed the effects of the application of these amendments.
- **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

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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 Company 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 Company (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 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 Company were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the date of the Company 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. These provisions are consistent with the requirements of the International Financial Reporting Standards (IFRS) adopted by the European Union (EU). The Company applies IFRS as of 1 January 2011 and the first year for which the separate financial statements were prepared in compliance with IFRS was 2012.

Operating and presentation currency

These separate financial statements are presented in RON, the operating currency of the Company.

Basis of preparation

The separate financial statements were prepared on the basis of the historical cost, except for certain financial instruments that are measured at 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.

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Based on the management's estimates, adjustments are made for impaired or slow moving inventories. The set up and reversal of allowances for inventories 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 Company 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 Company also prepares consolidated financial statements in accordance with IFRS adopted by the EU, which are available on the Company's website.

Going concern principle

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

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 evaluated at historical cost in foreign currency are recorded in lei, at the exchange rate of the transaction date. The non-monetary assets and liabilities denominated in foreign currency and evaluated 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:

	Exchange rate at 31 December 2014	Exchange rate at 31 December 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

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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 Company 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 Company 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 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.

According to their nature, contingencies will be clarified only when one or more future events occur or not. The measurement of contingencies involves the uses of assumptions and significant estimates of the outcome of future events.

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.

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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 Company 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 Company 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.

Intangible assets

Initial measurement

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

The Company 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 Company 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.

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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 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.

SC Electromagnetica SA established the value threshold for the recognition of a tangible asset item (that meets the conditions for recognition according to IAS 16).

Measurement subsequent to initial recognition

The Company 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.

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.

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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.

SC Electromagnetica SA selected the following depreciation methods for the systematic allocation of asset values over their useful life:

- *Straight-line method:*

Group 1 (ct 2121) Buildings

Group 2- subgroup 2.2 (ct 2131) Plant and machinery

- *Diminishing balance method*

Group 2- subgroup 2.3 (ct 2132) Measurement, control and adjustment devices

Group 2- subgroup 2.4 (ct 2133) Motor vehicles

Group 3 - (ct 2141) Furniture, office equipment, human and material protection equipment

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

The Company management deemed appropriate the following durations of useful life for different categories of tangible assets:

Tangible assets	Duration (years)
Buildings	20 - 40
Technological equipment	5 - 12
Measurement, control and adjustment devices	3 - 8
Motor vehicles	4 - 8
Furniture, office equipment, human and material protection equipment	8 - 15

Impairment policy applied by the company

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

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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.

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. All the other costs incurred for current repairs and ordinary maintenance are directly recognised as expenses.

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 upon the first application of IFRS

Upon the first application of IFRS, the company chose to use the derogation regarding the deemed cost and measure the investment property at deemed cost based on the previous revaluation according to the generally accepted accounting principles for the tangible asset that, upon the first application of IFRS, meet the conditions to be recognised as investment property and considering that, at the date of revaluation, the revaluation was comparable with the fair value.

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SC Electromagnetica SA owns property that is fully used for rental. According to IAS 40, these buildings are recognised as **investment property**.

Measurement subsequent to recognition

The Company 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

Financial assets

Financial assets include the shares owned in subsidiaries, associated entities and jointly controlled entities, the loans granted to these entities, other investments held as fixed assets, other loans.

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; or
 - 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.

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According to **IAS 39 – Financial Instruments**, SC Electromagnetica SA 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 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).

Investments in related entities

Subsidiaries are entities controlled by the company. **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.

As of 2014, the Company applies the International Financial Reporting Standard IFRS 10 Consolidated Financial Statements because SC Electromagnetica SA controls several entities. IFRS 10 partially 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:

- 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.

For the beginning of the application of IFRS and in these financial statements, the Company 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 SC Electromagnetica holds interests is quoted on a stock exchange. The corresponding assets

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are measured at the acquisition cost, are annually tested for impairment and the impairment, if any, is recognised at the date of finding.

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.

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.

Inventories

According to IAS 2 – Inventories, these assets 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 inventories impairment is made in the profit and loss account.

According to IAS 2, the Company uses the First In First Out (FIFO) method to determine the inventory outflow cost of supplied materials. Until the beginning of application of the International Financial Reporting Standards, according to the accounting regulations of OFMP 3055/2009, the Company applied the Last In First Out (LIFO) method to determine the cost; this method is no longer accepted by IFRS.

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.

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

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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 Company 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.

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.

Liabilities

A liability is a present obligation of the Company 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.

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; or
- b) it is primarily held for trading;
- c) it is due to be settled within 12 months after the balance sheet date;
- d) the Company 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:

- a) the initial term was longer than 12 months;
- b) the Company 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.

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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 Company 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.

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 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%.

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 Company'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.

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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 Company has transferred to the buyers the significant risks and rewards of ownership;
 - the Company 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 entity;
- 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 Company 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 Company 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 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 Company 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:

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- 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 Company 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.

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;

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e) employee benefits;

f) other provisions

When the review by the management together with the legal advisors of the chances for the Company 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 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 remeasured and adjusted to represent the best 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 Company 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.

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.

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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 Company 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 Company 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 Company does not have other additional obligations.

The Company is not involved in any independent pension scheme, therefore it does not have any obligations in this regard. The Company is not involved in any post-employment benefit scheme. The Company does not have any obligation to provide subsequent services to former or present employees.

At present, the Company does not grant employee benefits in the form of profit sharing.

Currently, there is no plan providing for the Company to grant benefits in the form of entity shares (or other equity instruments).

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.

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 company chose to present the earnings per share in these separate financial statements.

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The Company presents the **basic earnings per share ("EPS")** for its ordinary shares. The basic EPS is calculated by dividing the gain or loss attributable to the holders of ordinary shares of the company by the weighted average of the outstanding ordinary shares during the period.

The weighted average of ordinary shares outstanding during the period = the number of shares outstanding at beginning of period adjusted by the number of the shares redeemed or issued during the period multiplied by a time weighting factor.

The time weighting factor is the number of outstanding days of the shares, calculated as percentage of the total number of days of the period.

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.

Reporting by operating segments

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

As the shares of SC Electromagnetica SA are traded on the Bucharest Stock Exchange and the Company applies the IFRS, the entity presents in its annual accounts and the interim reports prepared according to **IAS 34 - Interim Financial Reporting**, information about the operating segments, their products and services, their geographical areas of activity and their main customers.

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, SC Electromagnetica SA identified the following operating segments for which it presents separate information:

- licensed activity – electricity supply and production.
- 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 31.12.13	102.739.779	79.076.116	26.646.792	3.361.246	3.804.554	215.628.486
Inflows. of which:	-	1.636.845	5.034.271	714.955	3.115.307	10.501.380
from revaluation	-	274.902	-	-	-	274.902
Outflows. of which:	-	(3.560.494)	(94.373)	(3.047)	(5.071.422)	(8.729.336)
from the determination of the net amount for revaluation	-	(3.558.259)	-	-	-	(3.558.259)
revaluation decrease	-	(2.235)	-	-	-	(2.235)
At 31 December 2014	102.739.779	77.152.467	31.586.690	4.073.155	1.848.439	217.400.529
Accumulated amortisation						
At 31.12.13	199.711	-	-	-	-	199.711
Amortisation for the year	25.834	3.558.259	4.553.147	1.279.568	-	9.416.808
Accumulated depreciation for outflows. of which:	-	(3.558.259)	(31.821)	(1.947)	-	(3.592.027)
from the determination of the net amount for revaluation	-	(3.558.259)	-	-	-	(3.558.259)
At 31 December 2014	225.545	-	4.521.326	1.277.621	-	6.024.492

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4 TANGIBLE ASSETS
(continued)

Allowances for impairment	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
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	101.034.963	79.076.116	26.646.792	3.361.246	3.804.554	213.923.671
At 31 December 2014	101.437.037	77.152.468	27.648.375	2.212.522	1.848.439	210.298.840

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4 TANGIBLE ASSETS

At 31 December 2014, the Company revalued all the tangible assets in group I – Buildings.

According to the accounting policy (note 2) 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).

According to the revaluation report, tangible assets increased by a total of 272.667 lei.

At 31 December 2014, the tangible assets decreased by 1,7% compared to 31 December 2013, which is mainly due to the recorded annual depreciation.

The inflows of tangible assets consist of modernisation of the company's premises and purchases of plant and machinery and motor vehicles.

The outflows of tangible assets consist of sales, discards, revaluation decreases.

Mortgaged tangible assets

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

Name of the asset	Guarantee contract	Financing bank
1. Land com. Domnesti, Ilfov County = 67.713,56 m2	Loan and agreement	BCR
2. Land com. Moara Vlaşiei, 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

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 in the previous years allowances for the impairment of non-current assets in the amount of 1.505.105 lei.

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.

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5 INVESTMENT PROPERTY

Electromagnetica SA 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.

According to IAS 40, this category of property is recognised as investment property. The Company 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:

	<u>Year 2014</u>	<u>Year 2013</u>
Balance at 1 January	907.248	1.048.880
Inflows, of which:	-	3.493
from revaluation	-	3.493
Outflows, of which:	-	(145.125)
from revaluation	-	(145.125)
Balance at 31 December	907.248	907.248

There was no revaluation increase or decrease.

The revenue arising from the investment property in 2014 amounts to 1.367.706 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.

6 INTANGIBLE ASSETS

Intangible assets include software, licences and various software applications. They are amortised using the straight-line method.

In the statement of financial position, they are presented at historical cost, less amortisation and impairment. In 2014, a write-down by 50.000 of the value adjustment of 140.000 lei was recorded for the old information system which is used occasionally.

The increase of intangible assets is mainly due to the purchase and putting into operation of the new integrated information system.

The useful life was estimated at 3 years for most of the intangible assets. The information system will be amortised over 5 years.

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The situation of intangible assets at 31 December 2014 was:

Cost	Concessions patents licences	Other intangible assets	Intangible assets in progress	Total
At 31 December 2013	202.541	640.946	285.788	1.129.275
Inflows	121.484	1.394.886	1.203.538	2.719.908
Outflows	-	-	(1.361.098)	(1.361.098)
Transfers	-	-	-	-
At 31 December 2014	324.025	2.035.832	128.228	2.488.085
Accumulated amortisation	Concessions patents licences	Other intangible assets	Intangible assets in progress	Total
At 31 December 2013	154.380	114.733	-	269.113
Amortisation for the year	70.548	329.627	-	400.175
Accumulated amortisation for outflows	-	-	-	-
At 31 December 2014	224.928	444.360	-	669.288
Allowances for impairment	Concessions patents licences	Other intangible assets	Intangible assets in progress	Total
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	720.162
At 31 December 2014	99.097	1.501.472	128.228	1.728.797

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7 INVESTMENTS IN RELATED ENTITIES

Upon the first application of IFRS and at 31 December 2014, the company classified its investments in related entities amounting to 3.967.605 lei as financial assets available for sale, according to IAS 39.

None of the companies in which these investments are made is quoted on a stock exchange. The investments are measured at cost and assessed for impairment annually. To determine impairment, the management uses a series of judgements and considers, along other factors, the duration and the extent to which the investment amount at the reporting date is inferior to its cost; the financial health and the short-term prospects of the related company, the technological changes and operational and financing cash flows.

At 31 December 2014, the management of the company assessed the financial investments for impairment. Following the analysis, the recoverable amount of the investments is higher than their carrying amount and no impairment expenses were recorded.

The details of the Company's investments in subsidiaries at 31 December 2014 and 2013 are:

Name of subsidiary	No. of securities	Ownership and voting right percentage (%)	Value
Electromagnetica Goldstar SRL	2.650	100%	3.126.197
Electromagnetica Prestserv SRL	295	98,333%	29.500
Electromagnetica Fire SRL	799	99,875%	79.900
Procetel SA	42.483	96,548%	732.008
TOTAL			3.967.605

These companies will be included in the consolidated financial statements. Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

8 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. These 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.

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

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

	Total	Under one year	Over one year
Performance guarantees	1.481.040	805.252	675.788

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9 INVENTORIES

	<u>31.12.14</u>	<u>31 December 2013</u>
Raw materials	5.573.723	4.718.776
Consumables	1.137.727	944.014
Finished goods	4.312.976	4.474.300
Work in progress	3.243.754	3.641.813
Other inventories	2.465.405	1.959.117
Allowances for the impairment of inventories	(796.636)	(351.477)
Total	<u>15.936.949</u>	<u>15.386.543</u>

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

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	351.477	-
Allowances during the current year	445.159	351.477
Balance at end of year	<u>796.636</u>	<u>351.477</u>

Allowances were recorded in the amount of 270.000 lei for raw materials and slow moving inventories, and 526,636 lei for finished goods, respectively.

The company did not pledge inventory items to secure liabilities.

The inventory turnover rate decreased in 2014 compared to 2013 from 18.2/year to 17.2/year.

10 TRADE RECEIVABLES

Receivables are recorded at nominal value and are accounted for in the cost 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.

	<u>31.12.14</u>	<u>under 1 year</u>	<u>Liquidity period over 1 year</u>
Internal trade receivables	50.341.822	37.011.338	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	(1.451.287)	(1.451.287)	-
Net trade receivables	<u>53.390.194</u>	<u>40.059.710</u>	<u>13.330.484</u>
	<u>31.12.13</u>	<u>under 1 year</u>	<u>Liquidity period over 1 year</u>
Internal trade receivables	53.421.815	44.808.219	8.613.596
External trade receivables	4.007.247	4.007.247	-

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Estimated trade receivables	2.286.643	2.286.643	-
Allowances for the impairment of trade receivables	(1.422.973)	(1.422.973)	-
Net trade receivables	58.292.732	49.679.136	8.613.596

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

	2014	2013
Balance at beginning of year	1.422.973	966.974
Impairment allowance recording-reversal	48.057	478.846
Impairment allowance write-down	(19.743)	22.847
Balance at end of year	1.451.287	1.422.973

The Company 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 SC Electromagnetica under the contracts concluded.

At 31 December 2014, the doubtful accounts and disputes amount to 1.514.385 lei.

The Company 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 company.

The accounts receivable collection period decreased in 2014 to 46 days, compared to 53 days in 2013.

11 OTHER CURRENT ASSETS

	31 December 2014	31 December 2013
Debtors	692.508	587.571
Accrued expenses	1.946.402	1.281.491
Suppliers debtors	2.321.197	1.691.318
Other assets	1.400.095	102.017
Total	6.360.202	3.662.397

The accrued expenses of 1,946,402 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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12 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>Year 2014</u>	<u>Year 2013</u>
Initial balance at 1 January	407.478	150.824
Inflows	5.766.694	6.907.044
quoted shares	2.235.146	2.081.575
green certificates	3.531.548	4.825.469
Outflows	6.218.972	6.650.390
quoted shares	2.687.424	1.824.921
green certificates	3.531.548	4.825.469
Final balance at 31 December	44.800	407.478

13 CASH AND CASH EQUIVALENTS

	<u>Initial balance at 1.01.2014</u>	<u>Proceeds</u>	<u>payments</u>	<u>Final balance at 31.12.2014</u>
petty cash	18.669	3.416.796	3.392.877	42.618
current accounts with banks	13.179.782	3.418.265.434	3.403.263.280	28.181.936
cash equivalents	239.335	3.245.806	3.483.359	1.734
Total	13.437.768	3.424.928.036	3.410.139.516	28.226.288

14 SHARE CAPITAL

The share capital subscribed and paid up is 67.603.870 lei, divided into 676.038.704 shares at nominal value 0,10 lei/share, fully paid-up.

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

SHAREHOLDER	31 December 2014		31 December 2013	
	NO. OF SHARES	%	NO. OF SHARES	%
PAS Electromagnetica Association	200.302.763	29,6289	200.346.774	29,6354
SIF Oltenia SA	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 Company does not own bonds, redeemable shares or other portfolio securities.

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15 RESERVES

The legal reserves of the Company increased in 2013 by 371.123 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).

The allowance for inflation following the application of IAS 29 to this reserves amounts to 46,736,837 lei, which is retained at 31 December 2014 and will not be used in the future.

Revaluation reserves amount to 77.333.251 lei at 31 December 2014. They decreased by 1.964.411 lei compared to the balance at the beginning of 2014.

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	79.297.662	76.940.272
Increase	274.096	3.002.162
Decrease	(2.238.507)	(644.772)
Balance at end of year	<u>77.333.251</u>	<u>79.297.662</u>

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 2013, the Company has other reserves (account 1068) amounting to 40.149.566 lei representing reserves for own sources of funding,

The increase is due to the distribution of the profit for the year 2013, amounting to 12.659.892 lei.

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	40.149.566	96.900.910
Increase	12.659.892	12.463.770
Decrease	-	(69.215.114)
Balance at end of year	<u>52.809.458</u>	<u>40.149.566</u>

16 PROFIT/LOSS CARRIED FORWARD

The profit/loss carried forward in the account 1175 at 31 December 2014 represents accounting profit of 2.878.432 lei arising from the transfer of reserves from revaluation related to the depreciated or discarded assets.

Of the net profit for the year 2013 of 16.273.854 lei, the following amounts were distributed in 2014 according to the decision of the general meeting of shareholders of 29.04.2013:

- 909.808 lei legal reserve
- 12.659.891 lei own sources of funding
- 2.704.155 lei dividends (0,004 lei/share)

At 31 December 2014, the Company recorded a net profit of 7.578.611 lei.

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The proposal of the Board of Directors for the distribution of dividends amounting to 2.704.155 lei (0,004 lei/ share) for the year 2014 will be submitted to the approval of the general meeting of shareholders of 29.04.2015.

17 LONG-TERM LOANS

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

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

Long-term loans only include guarantees received from tenants.

The guarantees received at 31 December 2014 amount to 1.967.728 lei and will be regularised under the contract terms.

	<u>Total</u>	<u>Under one year</u>	<u>Over one year</u>
Guarantees received	1.967.728	735.714	1.232.014

18 DEFERRED INCOME

31.12.14	<u>Total</u>	<u>under one year</u>	<u>over one year</u>
Investment subsidies	5.392.305	165.773	5.226.532
Deferred income	2.455.105	410.514	2.044.591
Total	7.847.410	576.287	7.271.123

Deferred income is influenced by the increase of sales under supplier credit terms.

In 2012, the Company 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.

19 PROVISIONS

Name	Balance 01.01.2014	Inflows (setup)	Outflow s (cancell ation)	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	100.000	115.000
TOTAL	724.500	1.205.000	620.000	1.209.500

The Company 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,

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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.

20 TRADE PAYABLES AND OTHER LIABILITIES

	<u>31 December 2014</u>	<u>31 December 2013</u>
Internal trade payables	12.824.661	4.674.562
External trade payables	1.645.599	2.250.809
Estimated trade payables	11.318.300	7.338.050
Total	25.788.560	14.263.421

	<u>31 December 2014</u>	<u>31 December 2013</u>
Advances received from customers	10.449.801	12.490.913
Salaries and social security contributions	2.648.037	6.486.684
Other liabilities	8.290.697	7.918.822
Total	21.388.535	26.896.419

Liabilities are recorded at nominal value and are accounted for in the cost 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 liability settlement period increased to 44 days in 2014 compared to 42 days in 2013.

The Company 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 Company 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.

21 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	755.551
TOTAL	-	258.124	1.298.290	2.023.099

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 2004, which are taxed

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concomitantly with the deduction of the tax depreciation, as well as from interest income collected under the supplier credit contracts.

22 REVENUE

	<u>31 December 2014</u>	<u>31 December 2013</u>
Revenue	426.040.896	399.376.154
- Revenue from sold production	94.821.381	91.979.022
- Revenue from sale of goods	331.219.515	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	8.695.371	7.914.729
- Revenue from subsidies	3.545.191	4.825.469
- Revenue from the revaluation of investment property	-	3.493
- Other income	1.012.844	299.338
- financial income	4.137.337	2.786.429
Total revenue	445.989.068	417.528.700

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 dies
- Metal and plastic subassemblies
- Railway traffic safety equipment
- LED lighting units

The main services that generate revenue are:

- Electricity supply
- Rental of premises for offices, industrial sites, land, and supply of utilities.

23 EXPENSES

	<u>31 December 2014</u>	<u>31.12.13</u>
Expenses related to materials	338.381.729	293.238.504
- Raw materials and consumables	45.949.268	35.988.065
- Goods purchased for resale	289.960.353	255.022.644
- Electricity, heating and water	2.472.108	2.227.795

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Expenses related to employee benefits	33.295.483	35.872.959
- Salaries	26.439.930	28.339.445
- Other personnel expenses	6.855.553	7.533.514
Other expenses	54.987.462	58.958.242
Postage	456.087	806.307
Rental	1.416.020	1.450.038
Advertisement and entertainment	1.198.585	1.578.274
Insurance	584.392	606.806
Transport and travel	2.034.475	1.307.405
Other operating expenses	47.376.026	52.239.257
Financial expenses	1.921.877	970.155
Expenses related to depreciation and impairment	10.297.549	9.945.207
- Depreciation	9.339.076	9.060.643
- Net impairment	958.473	884.564
Total expenses	436.962.223	398.014.912

The supply prices of raw materials and production supplies increased being mainly affected by the increase of stock quotes for the main raw materials (non-ferrous metal and plastics, correlated with oil prices). As the delivery deadlines were increasingly longer, the optimisation of the value of lots and inventories became more difficult and negatively impacted on the production costs.

Expenses related to merchandise decreased because the volume of energy transactions increased.

The decrease in personnel expenses was due to the decreased value of benefits depending on the level of achievement of performance targets by employees.

24 FINANCIAL EXPENSES AND INCOME

	31 December 2014	31 December 2013
Foreign exchange losses	1.878.318	910.226
Foreign exchange gains	1.927.253	982.692
Net foreign exchange difference	48.935	72.466
Interest expense	12.529	55.489
Interest income	266.704	397.303
Net interest difference	254.175	341.814
Dividends received	646.643	545.907
Income from shares sold	221.987	52.820

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Other financial expenses	31.030	(60)
Other financial income	1.074.751	494.521
Net difference other financial income and expenses	1.043.721	494.581
Financial result	2.215.461	1.816.274

The financial profit amounts to 2.215.461 lei, an increase by 22% compared to 2013.

25 INCOME TAX

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

Indicator	31 December 2014	31 December 2013
Net accounting profit	7.587.661	16.273.854
Deductions	(10.345.373)	(9.422.367)
Non-taxable income	(14.396.593)	(14.615.784)
Non-deductible expenses	25.001.452	27.896.007
Taxable profit	7.847.147	20.131.710
Tax loss from previous years	-	-
Other items	-	-
Current income tax	1.255.544	3.221.074
Income tax reduction	(13.049)	(95.365)
Income tax due at end of period	1.242.495	3.125.709
Income tax paid during the year	(1.927.363)	(2.570.139)
Income tax payable/recoverable	(684.868)	555.570

The total receivable related to the current income tax amounts to 780,927 lei and includes 684,868 lei income tax recoverable for 2014 and 96,059 lei income tax recoverable for the previous years.

26 AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	31 December 2014	31.12.13
Management	58	55
Administrative	264	245
Production	304	301
Total	626	601

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The high qualification level of employees enabled the company to carry out sustained research and development activities. The evolution of the employee structure by the level of qualification:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Higher education	34%	29,5%
Secondary education	36%	35,5%
Technical education	3%	3%
Vocational and qualification	27%	32%
Average number of employees	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	26.439.930	28.339.445
Expenses related to social security contributions	6.855.553	7.533.514
Total	33.295.483	35.872.959

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

27 TRANSACTIONS WITH RELATED PARTIES

	<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

	<u>31 December 2014</u>	<u>31 December 2013</u>
Purchases 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	63.479	63.252
Procetel	-	-
Total	148.047	67.757

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

The remuneration of the members of the Board of Directors in the financial year 2014 was 502.933 lei.

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

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

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

Procetel SA is a joint stock company with registered office in Calea Rahovei 266-268, Bucharest, sector 5, registration number with the Trade Register J40/10437/1991, Tax ID 406212, tel.: 031.700.2614, fax: 031.700.2616; its main object of activity is other research and experimental development on natural sciences and engineering (NACE code 7219). It carries out renting activities.

Electromagnetica Goldstar SRL is a limited liability company with registered office in Bucharest, Calea Rahovei no. 266-268, sector 5, registration number with the Trade Register Office attached to Bucharest Tribunal J40/12829/1991, Tax ID 400570; its main object of activity is the manufacture of communication equipment (NACE code 2630). It carries out service and warranty activities for communication equipment.

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).

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.

28 EARNINGS PER SHARE

Basic earnings per share

In 2014, there were no changes in the share capital structure. The basic earnings per share are presented in the profit and loss account and other components of comprehensive income. It was calculated as the ratio of the net profit related to ordinary shares and the weighted average of outstanding ordinary shares.

	<u>31 December 2014</u>	<u>31 December 2013</u>
Net profit attributable to the shareholders of the Company	7.808.902	16.273.854
Average weighted number of ordinary shares	676.038.704	676.038.704

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Earnings per share 0,0116 0,0240

Diluted earnings per share

To calculate the diluted earnings per share, the company adjusts the profit attributable to the ordinary shareholders of the parent and the weighted average of outstanding shares by the effects of all the potentially diluting ordinary shares. For the years 2014 and 2013, Electromagnetica SA records the basic earnings per share as equal to the diluted earnings per share as there are no certain securities that could be converted into ordinary shares in the future.

29 INFORMATION BY OPERATING SEGMENTS

The Company 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

The information by operating segments is reported according to the activities of the Company. 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 Company	Licensed activity	% Total Company	Total Company
Net profit	5.150.301	68,0	2.428.360	32,0	7.578.661
Total assets	139.410.791	43,1	184.004.406	56,9	323.415.197
Total liabilities	24.621.657	41,4	34.867.461	58,6	59.489.118
Customer revenue	92.717.164	21,8	333.223.733	78,2	426.040.897
Interest income	266.704	100,0	-	n/a	266.704
Impairment and depreciation	7.317.967	71,1	2.979.582	28,9	10.297.549
Year 2013	Unlicensed activity	% Total Company	Licensed activity	% Total Company	Total Company
Net profit	7.277.750	44,7	8.996.104	55,3	16.273.854
Total assets	182.459.960	58,5	129.262.345	41,5	311.722.305
Total liabilities	27.093.928	51,4	25.585.096	48,6	52.679.024
Customer revenue	90.350.427	2,6	309.025.727	77,4	399.376.154
Interest income	397.303	100,0	-	n/a	397.303
Impairment and depreciation	6.794.006	68,3	3.151.201	31,7	9.945.207

Licensed activities

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Electricity supply services

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. 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 Electromagnetica 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.

Production of electricity from renewable sources

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.

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Unlicensed activity. Main products and production structure

LED lighting units, systems and solutions

In 2014, the production of LED lighting units maintained its increasing trend. Almost half of the Company production is represented by this category of products. Export sales became more significant. LED 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 company by means of the division set up within the commercial department.

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

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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 bodies production and the introduction of new manufacturing technologies requires 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 Electromagnetica 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

Electromagnetica administers approximately 32.500 m² of rentable premises in Bucharest, as well as 3.500 m² in Varteju commune, Ilfov county. The average occupation level for the headquarters in Calea Rahovei 266-268 was 94,12% at the end of 2014. For the premises in Varteju commune (Magurele), the level of occupation was 81,48%.

The decrease in turnover reduced to only 2,38% compared to the previous year due to the reduction of 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.

30 RISK MANAGEMENT

The Company is exposed to the following risks:

Equity risk

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The goals of the Company with respect to capital management aim to ensure the continuity of the company'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 Electromagnetica consists of equity attributable to shareholders (including the share capital, reserves and retained earnings) and liabilities (including the loans).

The Company 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 Company can adjust the dividends paid to shareholders, issue new shares or sell assets.

The main goal of the Company with regard to capital management is to secure and maintain a favourable credit rating and high-performance capital indicators.

The Company 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	47.177.095	40.700.329
Less: Cash and cash equivalents	(28.226.288)	(13.437.768)
Net Liabilities/(Assets)	18.950.807	27.262.561
Equity	263.926.079	259.043.281
TOTAL CAPITAL EMPLOYED	282.876.886	286.305.842
Debt ratio	6,70%	9,52%

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 company 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 company 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 by the customers of the company. 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

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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 Electromagnetica 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 Company'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 Company 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 company usually recording cash-flow surplus. The Company 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:

	<u>Assets</u>	<u>Deferred</u>
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 Company.

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 Company 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

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obligations in case of short-term cash deficit. Although these credit lines were seldom accessed 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 benefits the suppliers on the domestic market. At the same time, its activity on regulated markets such as the energy market exposes the Company 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 company concluded insurance policies to protect MHPs and against disasters.

This note presents information about the exposure of the Company to each of the above risks, the goals of the Company, 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 Company has the general responsibility for the establishment and supervision of the risk management framework at Company 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 development of the stock market;
- f) the principle of the active role.

The Board of Directors is also responsible for the review and approval of the strategic, operational and financial plan of the Company and the Company corporate structure.

The risk management policies of the Company are defined to ensure the identification and analysis of the risks the Company 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 Company. Through its training and management standards and procedures, the Company aims to develop an orderly and constructive control environment where all employees understand their roles and duties.

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The internal audit of the Company 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.

31 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At 31 December 2014, the Company 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.

- 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 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

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

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

32 SUBSEQUENT EVENTS

There were no subsequent events.