

ELECTROMAGNETICA SA

**SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Prepared in accordance with
Ministry of Public Finance Order no. 2844/2016 approving the Accounting Regulations
compliant with International Financial Reporting Standards as adopted by the European Union**

(Together with Independent Auditor's Report and Administrator's Report)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders,
Electromagnetica S.A.

Opinion

1. We have audited the standalone financial statements of Electromagnetica S.A (the Company), with registered office in Bucharest Sector 5, 266-268 Rahova blvd, identified by the unique tax registration code 414118, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the standalone financial statements.
2. The standalone financial statements as at December 31, 2017 are identified as follows:
 - Net assets RON 316,104,451
 - Loss for the financial year RON 15,370,332
3. In our opinion, the accompanying standalone financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with the provisions of the Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law")(if PIE). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Standalone financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the standalone financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters to be communicated in our report.

Other information – Administrator’s Report

6. Management is responsible for preparation and presentation of the other information. The other information comprises the Administrator’s report which does not include the standalone financial statements and our auditors report thereon, nor the non-financial information declaration being is presented in a separate report.

Our opinion on the standalone financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements for the year ended December, 31, 2017, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Administrator’s report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20.

On the sole basis of the procedures performed within the audit of the standalone financial statements, in our opinion:

- a) the information included in the administrators’ report for the financial year for which the standalone financial statements have been prepared are consistent, in all material respects, with these standalone financial statements;
- b) the administrators’ report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20.

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the (standalone) standalone financial statements prepared as at December 31, 2017, we are required to report if we have identified a material misstatement of this Administrator’s report . We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Standalone financial statements

7. Management is responsible for the preparation and fair presentation of the standalone financial statements in accordance with the provisions of the Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of standalone financial statements that are free from material misstatement, whether due to fraud or error.
8. In preparing the standalone financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
9. Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor's Responsibilities for the Audit of the Standalone financial statements

10. Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.
11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

15. We have been appointed by the General Assembly of Shareholders on April 21, 2016 to audit the standalone financial statements of Electromagnetica S.A. for the financial year ended December 31, 2017. The uninterrupted total duration of our commitment is 2 years, covering the financial years ended December 31, 2016 and December 31, 2017.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014.

The engagement partner on the audit resulting in this independent auditor's report is Zeno Caprariu.

Zeno Caprariu, Audit Director

*Registered with the Chamber of Financial Auditors of Romania
under certificate no. 2693/ 18.11.2008*

On behalf of:

DELOITTE AUDIT S.R.L.

*Registered with the Chamber of Financial Auditors of Romania
under certificate no. 25/25.06.2001*

4-8 Nicolae Titulescu Blvd, America House, East Wing
2nd Floor – Deloitte area and 3rd Floor, sector 1,
Bucharest, Romania
March 20, 2018

ELECTROMAGNETICA SA
SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

	Note	12-month period ended December 31, 2017	12-month period ended December 31, 2016
Revenues	20	221,623,299	234,188,009
Investment income	20	344,648	4,019,247
Other net income and expenses	20	(9,754,854)	4,906,997
Changes in inventories of finished goods and work in progress	20	13,407,878	15,924,804
Own work capitalized	20	1,617,287	1,246,195
Raw materials and consumables used	21	(165,663,451)	(169,435,104)
Employee-related expenses	21	(33,915,814)	(34,094,959)
Expenses related to depreciation and impairment	21	(11,235,656)	(16,631,162)
Other expenses	21	(30,722,229)	(34,250,873)
Financial expenses	22	(671,488)	(638,941)
(Loss)/Profit before tax		(14,970,380)	5,234,213
Income tax	23	(399,952)	(906,366)
(Loss)/Profit of the period		(15,370,332)	4,327,847
Other comprehensive income			
of which:			
other comprehensive income that cannot be reclassified to profit or loss, of which:			
- revaluation surplus for tangible assets		-	81,594,328
- deferred tax recognized in equity	23	945,338	(13,501,713)
-use of inflation adjustment to cover losses		-	22,716,628
- use of inflation adjustment to cover losses		-	(22,716,628)
Restatement of deferred tax for revaluation of assets written off		-	70,951
Comprehensive income for the period		(14,424,994)	72,491,413
Basic diluted earnings per share		(0,0227)	0,0064

These separate financial statements were approved for issue by the management as at March 20, 2018.

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

The accompanying notes form an integral part of these separate financial statements
This is a free translation from the original Romanian version.

ELECTROMAGNETICA SA
SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
ASSETS			
Non-current assets			
Property, plant and equipment	4	286,427,678	292,544,407
Investment property	5	4,555,912	4,631,885
Intangible assets	6	1,247,495	1,635,414
Investments in related entities	7	3,967,606	3,967,606
Other long-term non-current assets	8	19,802,564	16,994,518
Total non-current assets		316,001,253	319,773,830
Current assets			
Inventories	9	16,763,968	17,407,304
Trade receivables	10	40,417,745	33,977,526
Cash and cash equivalents	13	16,362,058	17,822,290
Financial assets at fair value through profit or loss	12	-	-
Other current assets	11	2,429,955	3,173,001
Current tax assets	23	-	-
Total current assets		75,973,726	72,380,121
Total assets		391,974,979	392,153,952
EQUITY AND LIABILITIES			
Equity			
Share capital	14	67,603,870	67,603,870
Reserves and other equity	15	182,561,233	180,407,837
Retained earnings	16	65,939,348	82,540,235
Total equity attributable to company's shareholders		316,104,451	330,551,942
Non-current liabilities			
Trade payables and other liabilities	19	1,304,836	2,783,769
Investment subsidies	17	4,736,743	4,899,962
Deferred tax liabilities	23	16,088,691	17,242,351
Total non-current liabilities		22,130,270	24,926,082
Current liabilities			
Trade payables and other liabilities	19	39,319,304	34,424,384
Investment subsidies	17	163,219	163,219
Provisions	18	13,744,272	1,833,135
Current income tax liabilities		513,462	255,189
Total current liabilities		53,740,257	36,675,928
Total liabilities		75,870,527	61,602,009
Total equity and liabilities		391,974,979	392,153,952

These separate financial statements were approved for issue by the management as at March 20, 2018.

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

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ELECTROMAGNETICA SA
SEPARATE STATEMENT OF CASH FLOWS
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

	Note	12-month period ended December 31, 2017	12-month period ended December 31, 2016
Cash flows from operating activities			
Cash receipts from customers		233,864,484	264,847,021
Payments to suppliers		(179,557,647)	(201,377,106)
Payments to employees		(32,750,119)	(32,364,619)
Other operating activities		(19,725,203)	(25,256,681)
		1,831,515	5,848,615
Cash generated by/ (used in) operating activities			
Interest paid		(28,486)	(72,757)
Income tax paid		(350,000)	-
		1,453,029	5,775,858
Net cash used in operating activities			
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(3,563,265)	(2,232,295)
Proceeds from sale of non-current-assets		224,954	33,155
Interest received		13,900	18,206
Dividends received		424,830	375,975
		(2,899,580)	(1,804,959)
Net cash used in investing activities			
Cash flows from financing activities:			
Proceeds from loans		44,169,727	68,918,650
Cash repayments of amounts borrowed		(44,169,727)	(68,918,650)
Dividends paid		(13,682)	(39,098)
		(13,682)	(39,098)
Net cash used in financing activities			
Net decrease/increase of cash and cash equivalents			
		(1,460,233)	3,931,802
Cash and cash equivalents at beginning of period	13	17,822,290	13,890,488
Cash and cash equivalents at end of period	13	16,362,057	17,822,290

These separate financial statements were approved for issue by the management as at March 20, 2018.

Eugen Scheuşan

Managing Director

Cristina Florea

Economic Manager

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ELECTROMAGNETICA SA
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Tangible assets revaluation reserve</u>	<u>Other reserves</u>	<u>Legal reserve</u>	<u>Other equity items</u>	<u>Total equity</u>
Balance as at January 1, 2016 (restated)	67,603,870	55,046,581	25,294,629	57,312,841	56,849,081	(4,046,176)	258,060,827
Comprehensive income for the period							
Profit or loss of the period	-	4,327,847	-	-	-	-	4,327,847
Other comprehensive income							
Net surplus from revaluation of fixed assets	-	-	81,594,328	-	-	-	81,594,328
Legal reserve	-	-	-	(268,198)	268,198	-	-
Deferred tax from revaluation	-	-	-	-	-	(13,501,713)	(13,501,713)
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets	-	449,478	(449,478)	-	-	-	-
Restatement of deferred tax for revaluation of assets written off	-	-	-	-	-	70,951	70,951
Transfer of inflation adjustment to retained earnings	-	22,716,628	-	-	(22,716,628)	-	-
Total comprehensive income for the period	-	27,493,953	81,144,850	(268,198)	(22,448,430)	(13,430,762)	72,491,413
Transactions with shareholders, directly registered to equity							
Other items	-	(299)	-	-	-	-	(299)
Balance as at December 31, 2016	67,603,870	82,540,235	106,439,479	57,044,643	34,400,651	(17,476,938)	330,551,942

These separate financial statements were approved for issuance by the management as at March 20, 2018.

Eugen Scheuşan

Cristina Florea

The accompanying notes form an integral part of these separate financial statements
This is a free translation from the original Romanian version.

ELECTROMAGNETICA SA
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

Managing Director

Economic Manager

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ELECTROMAGNETICA SA
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Tangible assets revaluation reserve</u>	<u>Other reserves</u>	<u>Legal reserve</u>	<u>Other equity items</u>	<u>Total equity</u>
Balance as at January 1, 2017	67,603,870	82,540,235	106,439,479	57,044,643	34,400,651	(17,476,938)	330,551,942
Comprehensive income for the period							
Loss of the period	-	(15,370,332)	-	-	-	-	(15,370,332)
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets	-	3,097,291	(3,097,291)	-	-	-	-
Deferred tax recognized in equity	-	-	-	-	-	945,338	945,338
Transfer of net profit to reserves	-	(4,327,847)	-	4,327,847	-	-	-
Total comprehensive income for the period	-	(16,600,888)	(3,097,291)	4,327,847	-	945,338	(14,424,994)
Transactions with shareholders, directly registered to equity							
Other items	-	-	(22,497)	-	-	-	(22,497)
Balance as at December 31, 2017	67,603,870	65,939,347	103,319,691	61,372,490	34,400,651	(16,531,600)	316,104,451

These separate financial statements were approved for issue by the management as at March 20, 2018.

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

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ELECTROMAGNETICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

1. GENERAL INFORMATION

ELECTROMAGNETICA SA is organized under the laws of Romania which was set up in 1930 and carries out activities in several sectors; the most important are:

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

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)
- 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 analyzed as follows:

	Jan – Dec 2016	Jan – Dec 2015
-		
- minimum price	0,1430	0,1330
- maximum price	0,1940	0,1900
- average price	0,1765	0,1474

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

	Jan – Dec 2016	Jan – Dec 2015
Average number of employees	577	583

These financial statements are compliant with IAS 27 – Separate financial statements prepared as at December 31, 2017 and for the periods presented, The Company also prepares consolidated financial statements as it has investments in subsidiaries.

The details of the Company's investments in subsidiaries December 31, 2017 are:

Name of subsidiary	No. of securities	Ownership and voting right percentage (%)	Value
Electromagnetica Golstar 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			<u>3,967,606</u>

The information on the object of activity and the general presentation of subsidiaries is found in Note 25.

ELECTROMAGNETICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU:

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

ELECTROMAGNETICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019).
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

More details about individual standards, amendments to existing standards and interpretations that can be used as appropriate:

- **IFRS 9 "Financial Instruments"** issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement, IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement - IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held, This single, principle-based approach replaces existing rule-based requirements under IAS 39, The new model also results in a single impairment model being applied to all financial instruments.

Impairment - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses, Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity, The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

ELECTROMAGNETICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Own credit - IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

- **IFRS 14 "Regulatory Deferral Accounts"** issued by IASB on 30 January 2014, This standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS.
- **IFRS 15 "Revenue from Contracts with Customers"** issued by IASB on 28 May 2014 (on 11 September 2015 IASB deferred effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 IASB made clarifications to this standard), IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures, The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations, Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts, The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services, The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.
- **IFRS 16 "Leases"** issued by IASB on 13 January 2016, Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability, The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly, The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined, If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate, As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature, A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, Otherwise a lease is classified as an operating lease, For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment, A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.
- **Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions** issued by IASB on 20 June 2016, The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
- **Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** issued by IASB on 12 September 2016, The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the Board is developing for IFRS 4.
- **Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation** issued by IASB on 12 October 2017, The amendments modifies the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments, Under the amendments, the sign of the prepayment amount is not relevant, i, e, depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment, The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of a early repayment gain.

This is a free translation from the original Romanian version.

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2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** issued by IASB on 11 September 2014 (on 17 December 2015 IASB deferred indefinitely effective date), The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.
- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative issued by IASB on 29 January 2016, The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities, The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- **Amendments to IAS 12 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealised Losses** issued by IASB on 19 January 2016, The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures** issued by IASB on 12 October 2017, Amendments were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied, Amendments also delete paragraph 41 because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property issued by IASB on 8 December 2016, The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use, A change of use occurs if property meets, or ceases to meet, the definition of investment property, A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use, Amendments also state that the list of evidence in paragraph 57 was designated as non-exhaustive list of examples instead of the previous exhaustive list.
- **Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** issued by IASB on 8 December 2016, Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording, Changes include: (i) deletion of the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose, (ii) clarification of the scope of the IFRS 12 by specifying that the disclosure requirements in IFRS 12, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, (iii) clarification of the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)”** issued by IASB on 12 December 2017, Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording, The amendments clarify that: a company remeasures its previously held interest in a joint operation when it obtains control of the business (IFRS 3); a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business (IFRS 11); a company accounts for all income tax consequences of dividend payments in the same way (IAS 12); and a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale (IAS 23).

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2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** issued by IASB on 8 December 2016, Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability, If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** issued by IASB on 7 June 2017, It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment, IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty, IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The separate financial statements of the Company were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the reporting date, i.e, December 31, 2017, and in compliance with Order of the Minister of Public Finance no, 2844/2016 approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to the 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 adopted by the European Union.

Functional and presentation currency

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

Basis of preparation

The separate financial statements were prepared at 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.

Property, plant and equipment are presented at revaluation amount (IAS 16) and investment property are presented at fair value (IAS 40).

For obsolete or slow moving inventories, adjustments are made based on the management's estimates, The set up and reversal of allowances for inventories impairment is made usually at the end of the quarter in the profit and loss account: for obsolete inventories at 50% of the total value and for slow moving inventories at 25%.

In its first financial statements prepared in compliance with IFRS the Company applied IAS 29 – Financial Reporting in Hyperinflationary Economies and adjusted the historical cost of share capital, legal reserves and other reserves set up from the net profit by the effect of inflation until December 31, 2003, These adjustments were recorded in reserve accounts (see Note 15).

The Company also prepares consolidated financial statements in accordance with IFRS adopted by the EU, which are available on the Company's website. These are presented at the same time as the separate financial statements.

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency

The operations expressed in foreign currency are recorded in RON, 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 RON, 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 semester are recognized in the profit or loss for the period. The non-monetary assets and liabilities measured at historical cost in foreign currency are recorded in RON, at the exchange rate of the transaction date. The non-monetary assets and liabilities denominated in foreign currency and measured at fair value are recorded in RON, 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 as at December 31, 2017	Exchange rate as at December 31, 2016
EUR	4.6597	4.5411
USD	3.8915	4.3033

Use of estimates and professional judgement

The preparation of the financial statements in compliance with the IFRS adopted by the European Union requires the use by the management of estimates and assumptions that affect the application of the accounting policies and the reported value of assets, liabilities, revenues and expenses. The estimates and judgements related thereto are based on historical data and other factors deemed relevant in the given circumstances and the result of these factors represents the basis for the judgements used in determining the carrying amount of assets and liabilities for which there are no other evaluation sources available. The actual results may differ from the estimated values.

Estimates and judgements are periodically reviewed. The reviews of accounting estimates are recognized 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 recognized as revenue or expense in the current period. The effect on the future periods, if any, is recognized as revenue or expense in the corresponding future periods.

The Company's management considers that the possible differences in relation to these estimates will not affect significantly the financial statements in the near future, for each estimation the principle of prudence is applied.

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, the intangible assets are analyzed to identify indication 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 recognized 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 recognized.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and professional judgement (continued)

The evaluation of the impairment loss on receivables is individual and relies on the best estimate of the management regarding the present value of the cash flows expected to be received. The Company reviews its trade receivables and other receivables on every financial position date in order to assess whether impairment in value should be recorded in the profit and loss account, The professional judgement of the management is required to estimate the value and 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 recognized 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 recognized based on the probability of the period and level of the future taxable profit and the future fiscal planning strategies.

Accounting principles, policies and methods

According to IAS 8 - Accounting policies, changes in accounting estimates and errors, the accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

The 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 2017 and presented in section 2.

Fair value

IFRS 13 - Fair Value Measurement establishes a fair value hierarchy that categorizes on three levels of input data for the evaluation techniques used to assess fair value:

- Level 1 inputs - are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date, This data provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available,
- Level 2 inputs - are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly for the assets and liabilities (for example the quoted prices for identical assets or liabilities on markets that are not active,
- Level 3 inputs - inputs are unobservable inputs for the asset or liability, The Company develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Initial measurement

The Company chose to measure these assets at acquisition 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 initial recognition.

The Company chose to use the straight-line method for the amortization 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 Company 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 recognized immediately in the profit or loss.

For their presentation in the profit and loss account, the gains or losses 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 unamortized 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.

Property, plant and equipment

Initial measurement

Tangible assets are initially recognized at acquisition cost or production cost.

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

The company established a value threshold for the recognition of a tangible asset item.

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 revalued amount, which is 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 buildings is generally market-based, through a valuation made by professional and qualified valuers.

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

The frequency of revaluations depends on the changes in the fair value of revalued 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 accumulated depreciation at the date of the revaluation is removed from the gross carrying amount of the asset and the net amount is restated at the revalued amount of the asset.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Measurement subsequent to initial recognition (continued)

Therefore, the 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 revaluations 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 revised at least at the end of the financial period.

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

The depreciation of an asset ends at the earliest of 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 derecognized. 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.

Land 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.

For all assets acquired starting January 1, 2015 the Company uses the straight-line method as the depreciation method which results in systematic allocation of the depreciable amount of the assets over their useful life.

The residual value, the useful life and the depreciation method are revised 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	<u>Duration (years)</u>
Buildings	20 - 100
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

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

If an asset is revalued, an impairment loss is recognized directly by reducing the revaluation surplus, but the loss should not exceed it.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Impairment policy applied by the company (continued)

The gain or loss resulting from the derecognition of a tangible asset is recognized in profit or loss at the date of the asset derecognition.

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

If items of tangible assets that were held for rental to others are sold repeatedly, these assets are 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 recognized as revenue in accordance with IAS 18 – Revenue.

Maintenance and capital repairs

Capitalized costs for capital repairs are separate components of the corresponding assets or groups of assets. Capitalized costs for capital repairs are amortized using the amortization method used for the underlying asset until the next repair. The expenditure for capital repair works includes the cost of replacing the assets or parts thereof, the costs of inspection and the costs of capital repairs. The expenditure is capitalized if an asset or a part of an asset which was amortized 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 amortized 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 day to day repairs and ordinary maintenance are directly recognized as expenses.

Investment property

Initial measurement

Investment property is initially recognized 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 after recognition

The Company selected the fair value model for the presentation of investment property in its financial statements. Investments properties are not depreciated, gains and losses arising from changes in fair value of investment properties are included in profit or loss in the period in which they arise.

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

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

The Company measures its investments in subsidiaries at cost, The Company does not have any investment in joint ventures or associated entities.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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.

According to **IAS 39 - Financial Instruments**, the Company classifies the financial assets held as financial assets at fair value through profit or loss and classifies in this category the 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.

Investments in related parties

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.

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.

Interest on loans

The interest on the loans directly attributable to the purchase, construction or manufacture of an asset with long production cycle are capitalized until the asset is prepared for its predetermined use or sale. All the other costs related to loans are recognized as expenses in the profit and loss account for the period of their occurrence. Interest expenses are recorded using the effective interest rate method. In the years ended December 31, 2016 and December 31, 2015 the Company did not capitalize interest expenses in the assets' value.

Government grants

According to IAS 20, government grants are recognized 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 recognized systematically in the profit and loss account for the useful life of the assets they relate to.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants (continued)

This category also includes the equivalent value of the green certificates received as electricity producer, 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.

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 realizable value. The net realizable 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. For inventories without moving or slow moving ones and finished goods adjustments are made based on the management's estimates. The set-up and reversal of allowances for inventories impairment is made in the profit and loss account.

The Company uses the First-in-First-out (FIFO) method to determine the inventory outflow cost of supplied materials.

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

Receivables and other similar assets

Receivables and other similar assets are stated at amortized cost less impairments.

When a receivable is expected not to be fully collected, impairment allowances are recorded at the level of the amount that cannot be recovered. Receivables are written off following their collection or assignment to a third party. Current receivables can also be written off by the mutual offset of accounts receivable and payables between third parties, under the law. The receivables with expired collection time limits are written off after the Company obtains the documents proving that all the legal steps to recover these receivables were taken. Receivables written off continue to be monitored off the accounting records,

Cash and cash equivalents

For the purpose of the preparation of the statement of cash flows, 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 initial 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 recognized 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 and the settlement amount can be measured reliably.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Liabilities (continued)

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 Company's 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**.

Financial liabilities are presented at amortized cost. Deferred income classified as non-current liabilities are discounted using the effective interest rate method. The discount rate used to this effect is the rate determined according to the company's own procedures.

The Company derecognizes 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.

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

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 Company 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 by analyzing the temporary differences of assets and liabilities. The tax loss carried forward is included in the calculation of the deferred tax asset. A deferred tax asset is recognized 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 tax authority.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of goods

Revenue arising from the sale of is recognized 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 recognized when it is probable that any future economic benefits will flow to the Company and the amount of these benefits can be reliably measured.

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 is also the case of 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 recognized 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 (based on interest rates used in the Romanian banking system) to discount the amounts receivable in the future.

Provision 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 recognized depending on the transaction stage of completion at the closing date of the reporting period. The result of a transaction can be reliably estimated when all the conditions below are met:

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

The Company uses the "percentage of completion method" to recognize the revenue depending on the transaction stage of completion. According to this method, revenue is recognized 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision of services (continued)

The revenue is recognized 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 recognized as an expense (provision for receivables) rather than an adjustment of the initially recognized revenue amount.

When the result of a transaction that involves the rendering of services cannot be reliably estimated, the revenue must be recognized only to the extent of the expenses recognized that are recoverable,

Rental income is recognized 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 recognized 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 recognized as a current expense in the period in which the allocation was approved.

The revenue arising from interest is recognized 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 can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement.

Provisions are recognized 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 recognized for:

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

When the review by the management together with the legal advisors of the chances for the Company to lose a lawsuit leads to the conclusion that the estimated probability for loss is higher than 50%, a provision is recognized at the reliably estimated amount.

Provisions for guarantees to customers are recognized 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Restructuring provisions

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 are recorded during the financial year for annual leaves not taken or other long-term employee benefits (if provided for in the labor contract). Upon their recognition as due 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 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 recognize 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 recognized in profit or loss as the related service is rendered.

The short-term employee benefits are wages and salaries, bonuses, and social security contributions, Short-term benefits are recognized 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 recognized 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).

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Profit or loss of the year

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 retained earnings, 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 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.

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

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 is the number of shares outstanding at the beginning of the 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.

Segment reporting

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 the company are traded on the Bucharest Stock Exchange and as it applies 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

- licensed activity – electricity supply and production,
- unlicensed activity;

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4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2016	143,639,728	120,885,080	27,709,621	2,470,267	1,441,161	296,145,856
Inflows of which:	204,700	298,538	5,679,823	568,750	1,908,647	8,660,458
- from revaluation	-	-	-	-	-	-
Outflows of which:	-	-	(2,658,665)	(7,886)	(1,734,744)	(4,401,295)
- from the determination of the net amount for revaluation	-	-	-	-	-	-
As at December 31, 2017	143,844,428	121,183,618	30,730,779	3,031,131	1,615,064	300,405,019
Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2016	277,213	-	3,188,448	135,789	-	3,601,449
Depreciation for the year	25,834	4,076,035	5,773,689	958,116	-	10,833,674
Accumulated depreciation for outflows of which:	-	-	(314,700)	(143,083)	-	(457,783)
- from the determination of the net amount for revaluation	-	-	-	-	-	-
As at December 31, 2017	303,047	4,076,035	8,647,437	950,822	-	13,977,341

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment allowances	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2016	-	-	-	-	-	-
Allowances for impairment recognized in profit or loss	-	-	-	-	-	-
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	-	-
As at December 31, 2017	-	-	-	-	-	-
Net book value						
As at December 31, 2016	143,362,515	120,885,080	24,521,173	2,334,478	1,441,161	292,544,407
As at December 31, 2017	143,541,381	117,107,583	22,083,342	2,080,309	1,615,064	286,427,678

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2015	118,365,248	77,728,446	35,380,852	4,809,678	1,694,592	237,978,816
Inflows of which:	25,866,238	57,215,602	4,658,322	1,059,528	1,580,504	90,380,194
- from revaluation	25,866,238	56,828,512	1,307,002	40,061	-	84,041,813
Outflows of which:	(591,758)	(14,058,969)	(12,329,553)	(3,398,939)	(1,833,935)	(32,312,153)
- from the determination of the net amount for revaluation	(591,758)	(6,415,490)	(10,779,298)	(2,847,002)	-	(20,633,548)
- revaluation decrease	-	(7,643,616)	(1,042,862)	-	-	(8,686,478)
As at December 31, 2016	143,639,728	120,885,080	27,709,621	2,470,267	1,441,161	296,145,856
Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2015	251,379	3,198,018	8,987,374	2,295,210	-	14,731,981
Depreciation for the year	25,834	3,217,472	4,980,372	687,581	-	8,911,258
Accumulated depreciation for outflows of which:	-	(6,415,490)	(10,779,298)	(2,847,002)	-	(20,041,790)
- from the determination of the net amount for revaluation	-	(6,415,490)	-	-	-	(6,415,490)
As at December 31, 2016	277,213	-	3,188,448	135,789	-	3,601,449

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

At December 31, 2017, property, plant and equipment decreased by 2% compared to December 31, 2016, which is mainly due to amortization.

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

The outflows of tangible assets consist in decreases of value after sales and disposals.

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

Name of asset	Net book value as at December 31, 2017	Net book value as at December 31, 2016
Land com. Domnesti. Ilfov County = 67.713.56 m2	12,299,569	12,299,569
Land com. Moara Vlasiei. Ilfov County = 70.469 m2	7,680,362	7,680,362
Land str. Mitropolit Filaret 35-37 sect. 4 Bucharest = 1.595 m2	3,621,527	3,621,527
Land str. Veseliei nr. 19 sect. 5 Bucharest =16.095 m2	11,694,241	11,694,241
Real estate (cadastral parcels no.13.15.16) Calea Rahovei 266-268 Sector 5 Bucharest	39,493,685	40,004,085

The tangible assets also include assets acquired by Government grant and used in licensed activity in one of the small hydropower plants located in Brodina, Suceava County, The net carrying amount of the investment at December 31, 2017 is RON 13,652,431, of which RON 4,899,962 represents grant. The net carrying amount of the investment at December 31, 2016 was RON 14,050,717 of which RON 5,063,181 represents grant.

Fair value of tangible assets

The tangible assets of the Company other than tangible assets in progress are presented in the financial statements at revalued amount, representing the fair value at the date of valuation, less accumulated depreciation and impairment.

Fair value for lands was determined using direct comparison method.

This method is recommended for properties, when there is sufficient and reliable data on transactions or selling offers for similar properties in the area. Analysis of prices at which transactions were made on requested or offered prices for comparable properties is followed by the performance of price corrections, in order to quantify the prices paid, required or provided, due to differences between the specific characteristics of each property in some called elements for comparison.

The fair value of buildings was determined using the cost method and the income method.

The cost method requires that the maximum value of an asset for an informed buyer is the amount that is needed to buy or build a new asset with equivalent utility. When the asset is not new, the current cost of crude has low all forms of impairment that may be assigned to him, until the valuation date.

The income method provides an indication of value by converting future income flows in asset value (market value or investment value).

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Information on the fair value hierarchy as at December 31, 2017 and December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value at December 31, 2017</u>
Lands and land improvements	-	-	143,541,381	143,541,381
Constructions	-	-	117,107,583	117,107,583
				Fair value at December 31, 2016
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Lands and land improvements	-	-	143,362,515	143,362,515
Constructions	-	-	120,885,080	120,885,080

During 2017 and 2016, there were no transfers between levels related to fair value.

5. INVESTMENT PROPERTY

The Company 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 recognized as investment property, The Company selected the fair value model for the presentation of investment property in its financial statements, The fair value revaluation as at December 31, 2017 was performed by an ANEVAR authorized company who used the income approach (discounted cash flow method).

As at December 31, 2017 the investment property is structured as follows:

	<u>2017</u>	<u>2016</u>
Opening balance	4,631,885	947,183
Inflows, of which:		
fair value valuation	219,918	3,739,958
Outflows, of which:		
fair value valuation	(295,891)	(55,256)
	<u>(295,891)</u>	<u>(55,256)</u>
Closing balance	4,555,912	4,631,885

The revenues arising from the investment property in 2017 amounts to RON 1,390,551 and covers the expenses incurred by the owner (2016: RON 1,359,581).

The Company holds other rented spaces within buildings used in conjunction with other activities. These are not classified as investment property because the share in total revenues is insignificant, Also in most cases these spaces cannot be managed separately.

There are no restrictions on the level of realization of investment property or the transfer of revenue and proceeds from disposal.

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6. INTANGIBLE ASSETS (continued)

Cost	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2015	312,132	2,207,292	12,701	2,532,125
Inflows	316,754	121,618	584,633	1,023,005
Outflows	(29,816)	(9,672)	(131,346)	(170,834)
Transfers	-	-	-	-
As at December 31, 2016	599,070	2,319,238	465,988	3,384,296
Accumulated amortization	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2015	188,241	965,827	-	1,154,068
Amortization for the year	82,973	511,840	-	594,813
Accumulated amortization for outflows	-	-	-	-
As at December 31, 2016	271,214	1,477,667	-	1,748,881
Net book value				
As at December 31, 2015	123,891	1,241,465	12,701	1,378,057
As at December 31, 2016	327,856	841,571	465,988	1,635,414

7. INVESTMENTS IN RELATED ENTITIES

As at December 31, 2017, the Company classified its investments in related entities amounting to RON 3,967,606 are stated at cost.

None of the companies in which these investments are owned 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, among 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,

The details of the Company's investments in subsidiaries as at December 31, 2017 are:

Name of subsidiary	No. of securities	Ownership and voting right percentage (%)	Value
Electromagnetica Golstar SRL	2,650	100%	3,126,198
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			3,967,606

These companies will be included in the consolidated financial statements.

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

	December 31, 2017	December 31, 2016
Performance guarantees granted to customers	635,927	1,146,339
Deferred green certificates	-	1,547,641
Trade receivables scheduled on the long-term	18,983,576	14,300,538
Other	183,061	-
Total	19,802,564	16,994,518

Based on Order 895/16.06.2017, deferred green certificates have been derecognized from the balance sheet and the Company will recognize revenues as they are sold.

Trade receivables scheduled on the long-term in net value of RON 19,619,503 as at December 31, 2017 have been discounted at present value, and the effect of the discount amounted to RON 1,163,892. The short-term portion is recognized in trade receivables (Note 10).

9. INVENTORIES

	December 31, 2017	December 31, 2016
Raw materials	6,881,623	8,173,484
Consumables	1,477,930	2,193,526
Finished goods	5,516,695	4,069,542
Work in progress	2,418,229	2,095,608
Other inventories	1,510,743	2,091,371
Allowances for impairment of inventories	(1,041,252)	(1,216,227)
Total	16,763,968	17,407,304

Other inventories include items of inventory, finished goods or materials in custody at third parties and advances paid to suppliers of goods.

The changes in inventory impairments is as follows:

	2017	2016
Balance at the beginning of period	1,216,227	1,170,080
Increase	786,383	234,823
Decrease	(961,358)	(188,676)
Balance at the end of period	1,041,252	1,216,227

Allowances recorded in the reporting period are for obsolete or slow moving raw materials and consumables.

The Company did not pledge inventories to secure its liabilities.

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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 recognized as income or expense for the period.

	December 31, 2017	December 31, 2016
Internal trade receivables*	38,643,217	26,388,329
External trade receivables	5,523,930	8,038,254
Estimated trade receivables	935,470	1,635,686
Adjustment of internal trade receivables at present value	(590,408)	(479,967)
Impairment of trade receivables	<u>(4,094,466)</u>	<u>(1,604,777)</u>
Net trade receivables	<u>40,417,743</u>	<u>33,977,526</u>

* Internal trade receivables include performance guarantees granted to customers with maturity under one year. As at December 31, 2017 they amounted to RON 1,112,796 (December 31, 2016: RON 1,168,053).

The sale contracts or services provision contracts concluded with customers under credit facilities have been discounted at present value. The total effect of the discount was RON 1,754,300, of which RON 590,408 due in one year and RON 1,163,891 due in more than one year (Note 8).

The balance of trade receivables from customers as at December 31, 2017 is RON 708,392 (December 31, 2016: RON 3,126,627) and represents promissory notes issued by customers in favor of the company under the contracts concluded.

The changes of impairment allowances of trade receivables are as follows:

	2017	2016
Balance at the beginning of period	<u>1,604,777</u>	<u>1,497,898</u>
Impairment allowance	2,580,794	158,651
Decreases of impairment allowances	<u>(91,105)</u>	<u>(51,773)</u>
Balance at the end of period	<u>4,094,466</u>	<u>1,604,777</u>

Doubtful accounts or litigating customers are in amount of RON 4,094,466 as at December 31, 2017 (December 31, 2016: RON 1,604,777).

The impairment recorded refers to amounts not collected from doubtful accounts or litigating customers and for which a risk of default was estimated according to the policy adopted by the Company.

The accounts receivable collection period has raised in 2017 to 100 days, compared to 76 days in 2016 because of the increase of sales under a supplier credit facility.

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10. TRADE RECEIVABLES (continuare)

The maturity of receivables as at the preparation date of the statement of financial position is:

	Gross value as at December 31, 2017	Provision as at December 31, 2017	Gross value as at December 31, 2016	Provision as at December 31, 2016
Outstanding	35,043,739	-	29,138,176	-
Overdue between 1 – 30 days	4,040,358	-	3,035,113	-
Overdue between 31 – 90 days	534,355	-	378,656	-
Overdue between 90 – 180 days	363,601	-	506,012	-
Overdue between 180 – 365 days	185,378	-	354,436	-
More than 1 year	4,344,778	(4,094,466)	2,708,734	(1,604,777)
Total	44,512,209	(4,094,466)	36,121,127	(1,604,777)

11. OTHER CURRENT ASSETS

	December 31, 2017	December 31, 2016
Debtors	31,440	173,045
Prepaid expenses	2,114,182	2,599,624
Debtor suppliers	24,697	21,175
Other assets	259,636	379,157
Total	2,429,955	3,173,001

The accrued expenses of RON 2,114,182 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 non-chargeable in amount of RON 259,636 (December 31, 2016: RON 340,480).

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In the group of financial assets at fair value through profit or loss the Company includes shares traded at the stock exchange (Level 1 inputs - determining fair value).

	2017	2016
Opening balance	-	467,080
Inflows of quoted shares	-	57,186
Outflows of quoted shares	-	524,266
Closing balance	-	-

During 2017, the Company had no trading transactions with shares.

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13. CASH AND CASH EQUIVALENTS

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Petty cash	10,555	6,901
Current accounts with banks	16,349,971	17,813,048
Cash equivalents	<u>1,532</u>	<u>2,341</u>
Total	<u>16,362,058</u>	<u>17,822,290</u>

14. SHARE CAPITAL

The share capital subscribed and paid up is RON 67,603,870, divided into 676,038,704 shares at nominal value 0,10 RON/share, fully paid-up.

The structure of the shareholders that own over 10% of the share capital as at December 31, 2017 is the following, according to the Central Depository Register:

SHAREHOLDER	<u>December 31, 2017</u>		<u>December 31, 2017</u>	
	<u>No. of shares</u>	<u>%</u>	<u>No. of shares</u>	<u>%</u>
Asociația PAS	200,302,763	29.6288	200,302,763	29.6288
SIF Oltenia SA	171,717,594	25.4006	171,672,301	25.3939
Natural persons	194,589,958	28.7838	193,778,348	28.6638
Legal persons	<u>109,428,389</u>	<u>16.1867</u>	<u>110,285,292</u>	<u>16.3135</u>
Total	<u>676,038,704</u>	<u>100</u>	<u>676,038,704</u>	<u>100</u>

This is no controlling party or joint control over the Company.

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

15. RESERVES

Legal reserve

	<u>2017</u>	<u>2016</u>
Balance as the beginning of the period	<u>34,400,651</u>	<u>56,849,081</u>
Increases	-	268,198
Reductions	-	<u>(22,716,628)</u>
Balance as the end of the period*	<u>34,400,651</u>	<u>34,400,651</u>

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,

* The allowance for inflation following the application of IAS 29 to this reserves amounts to RON 24,020,209 at December 31, 2016 (December 31, 2016: 24,020,209).

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15. RESERVES (continued)

Revaluation reserves amount to RON 103,319,691 as at December 31, 2017. Reported at the beginning of the period, they decreased due to the transfer of the revaluation reserve to retained earnings as a result of amortization.

	<u>2017</u>	<u>2016</u>
Balance as the beginning of the period	106,439,479	25,294,629
Increases	-	81,594,328
Reductions	(3,119,788)	(449,478)
Balance as the end of the period	103,319,691	106,439,479

At December 31, 2017 the Company has **other reserves** amounting to RON 61,372,490 of which reserves for own sources of founding represent 98%.

	<u>2017</u>	<u>2016</u>
Balance as the beginning of the period	57,044,643	57,312,841
Increases	4,327,847	-
Reductions	-	268,198
Balance as the end of the period	61,372,490	57,044,643

16. RETAINED EARNINGS

As at December 31, 2017 the retained earnings arising from the transfer of reserves from revaluation related to depreciated or decommissioned assets was in amount of RON 3,097,291.

17. INVESTMENT SUBSIDIES

	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Investment subsidies as at December 31, 2017	4,899,962	163,219	4,736,743
	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Investment subsidies as at December 31, 2016	5,063,181	163,219	4,899,962

In 2012, the Company benefited from an investment subsidy of 5,997,788 RON granted for the modernization of the micro-hydro power plant in Brodina (Suceava), which will be transferred to revenue concomitantly with the registration of the amortization of the non-current assets purchased under this project. The net book value of the fixed assets purchased from such grant are presented in Note 4.

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18. PROVISIONS

Name	Balance 01.01.2017	Inflows (set-up)	Outflows (reversals)	Balance 31.12.2017
Provisions for Fines				
Competition Council	-	10,024,824	-	10,024,824
Provisions for performance guarantees to customers	1,462,750	921,494	(1,041,294)	1,342,950
Provisions for risks and charges	4,500	31,440	(4,500)	31,440
Provision for employees' benefits	365,885	2,345,058	(365,885)	2,345,058
TOTAL	1,833,135	13,322,816	(1,411,679)	13,744,272

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, therefore the related provision is calculated based on the analysis of the history of costs incurred with goods under warranty.

On December 31, 2017, the Company set-up a provision of RON 10 million following the announcement of the Competition Council in January 2018 regarding the sanction of the company for an alleged breach of the competition law on the market for the production and trading of electricity meters and equipment related to the measurement of energy and on the market of services related to electricity measurement during the period 2010-2012. After the communication of the motivated decision, the Company will appeal in court the sanction decision within the legal term.

The provision for employee benefits relates to the value of the rest leaves not taken in the previous year and other provisions under labor contracts; its decrease was recorded while performing such leaves during the reporting period.

19. TRADE AND OTHER PAYABLES

Trade payables	December 31, 2017	December 31, 2016
Internal trade payables	7,381,492	13,226,467
External trade payables	3,042,745	2,690,979
Estimated trade payables	11,365,149	1,856,736
Total trade payables	21,789,386	17,774,182
Other current payables	December 31, 2017	December 31, 2016
Advances received from customers	1,900,266	645,602
Salaries and social security contributions	2,785,154	3,525,884
Income in advance	100,778	1,548,133
Other payables	12,743,720	10,930,581
Total trade and other payables	39,319,304	34,424,382

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19. TRADE AND OTHER PAYABLES (continued)

Liabilities are recorded at nominal value and are accounted for in the analytical records 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 recognized as income or expense for the period.

The liability settlement period increased to 73 days in 2017 compared to 62 days in 2016.

The Company does not have significant outstanding trade payables,

The Company does not have overdue liabilities to employees and the state budget. The amounts presented represent liabilities for December 2017, were paid on the due date, in January 2018.

The Company did not have long-term loans at December 31, 2017.

The Company has several loan agreements approved as at December 31, 2017. Their status is presented in Note 29 to these financial statements. There were no outstanding liabilities related to loans as at December 31, 2017 and as at December 31, 2016.

Other payables include guarantees received from tenants, VAT to be paid, other taxes and the fine in amount of RON 9,021,308 for the supply of electricity as a result of the Competition Council's decision. For this amount the Company requested ANAF the suspension according to Art. 235 of the Fiscal Procedure Code.

The guarantees received as at December 31, 2017 amount to RON 2,549,888 and will be settled according to the contractual terms.

	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Guarantees received	2,549,888	1,245,052	1,304,836

20. INCOME

	<u>2017</u>	<u>2016</u>
Income	<u>221,623,299</u>	<u>234,188,009</u>
- Income from sold production	77,990,616	91,102,036
- Rental income	14,131,735	13,916,065
- Income from sale of goods	129,500,948	129,169,908
Investment income	<u>344,648</u>	<u>4,019,247</u>
- Interest income	12,482	15,909
- Income from dividends	424,830	375,975
- Net income from fair value measurement of investment property	(92,664)	3,668,940
- Other net investment income	-	(41,577)
Variation in inventories of finished goods and work in progress	13,407,878	15,924,803
Own work capitalized	1,617,287	1,246,195
Other income / expenses	<u>(9,754,854)</u>	<u>4,906,997</u>
- Income from subsidies	3,335,999	2,805,486
- Net provisions	(14,226,355)	1,066,172
- Net foreign exchange difference	321,377	(6,200)
- Other income	814,125	1,041,539
Net income	<u>227,238,258</u>	<u>260,285,252</u>

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20. INCOME (continued)

Income from sold production decreased as a result of fluctuating orders as well as due to the postponement of auctions of electricity consumption measuring equipment and auctions of railway safety elements.

Rental income for the year ended December 31, 2017 includes 1,390,551 RON representing rents related to real estate investments (2016: 1,359,581 RON).

Net provisions are income from adjustments for impairment of inventories and receivables as well as income / expense with provisions for good execution guarantees granted to clients, the significant increase being represented by the provision of RON 10 million following the announcement of the Competition Council in January 2018, referring to sanction the Company for an alleged breach of the competition law on the market for the production and sale of electricity meters and related equipment for energy measurement and on the market for the provision of services related to electricity measurement during the period 2010-2012. After the communication of the motivated decision, the Company will contest in court decision to sanction within the legal time.

21. EXPENSES

	2017	2016
Expenses related to materials	165,663,451	169,435,104
- Raw materials and consumables	47,434,400	51,564,316
- Goods purchased for resale	115,916,861	115,447,129
- Electricity, heating and water	2,312,190	2,423,659
Employee-related expenses	33,915,814	34,094,959
- Salaries	27,904,156	27,919,696
- Other employee-related expenses	6,011,658	6,175,263
Other expenses	30,722,229	34,250,873
Post	236,798	282,074
Maintenance expenses	427,232	450,299
Rentals	1,313,909	1,485,730
Advertisement and entertainment	499,333	348,830
Insurance	530,627	521,002
Transport and travel	1,270,865	1,626,482
Subcontracted work	5,874,193	8,320,030
Other taxes	1,410,434	1,243,720
Consultants and collaborators	930,935	1,142,752
Costs of green certificates	8,087,203	10,641,189
Other operating expenses	10,140,700	8,188,765
Expenses related to depreciation and impairment	11,235,656	16,631,162
- Depreciation	11,235,656	9,505,129
- Net impairment	-	7,126,033
Total expenses	241,537,150	254,412,098

Expenditure on raw materials and materials decreased due to the postponing of auctions of electricity consumption measuring equipment and auctions of railway traffic safety features.

The "Other operating expenses" line shows the services rendered by third parties, banking and similar services, fees and commissions etc.

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22.. FINANCIAL EXPENSES

	<u>2017</u>	<u>2016</u>
Interest expenses	29,134	72,757
Bank charges	642,354	566,184
Total financial expenses	<u>671,488</u>	<u>638,941</u>

23. INCOME TAX

Income tax recognized through profit or loss:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current income tax		
Current income tax expenses	608,274	1,036,116
Deferred income tax		
Deferred income tax expenses/income	(208,321)	(129,750)
	<u>399,952</u>	<u>906,366</u>

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

Caption	<u>Year ended December 31, 2017</u>	<u>Year ended December 31, 2016</u>
Net accounting (loss)/profit	<u>(15,370,332)</u>	<u>4,327,847</u>
Deductions	(7,227,237)	(8,519,337)
Non-taxable income	(3,410,770)	(13,661,695)
Non-deductible expenses	29,810,044	29,975,025
Taxable (loss)/profit	3,801,705	12,121,841
Tax loss from previous years	-	(5,634,850)
Current income tax	608,273	1,037,919
Income tax reduction	-	(1,803)
Income tax due at end of period	<u>608,274</u>	<u>1,036,116</u>

The tax rate used for the reconciliations above is 16%.

As at December 31, 2017, the current income tax due is RON 513,462 (December 31, 2016: RON 255,189).

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23. INCOME TAX (continued)

The analysis of deferred tax for the reporting period is shown below:

	Opening balance	Through profit or loss	Through other comprehensiv e income	Closing balance
Property, plant and equipment	(17,965,892)	(545,749)	945,338	(17,566,303)
Receivables	213,639	67,049	-	280,688
Impairment of receivables	256,764	398,350	-	655,115
Impairment of inventories	194,596	(27,996)	-	166,600
Employee-related benefits	58,542	316,667	-	375,209
TOTAL	(17,242,351)	208,321	945,338	(16,088,691)

The deferred income tax resulted from different accounting and tax depreciation methods, and the one from revaluation reserves resulted from the revaluation of tangible assets registered after January 1, 2004, which are taxed concomitantly with the deduction of the tax depreciation.

24. AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	December 31, 2017	December 31, 2016
Management	45	53
Administrative	236	236
Production	296	294
Total	577	583

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:

	December 31, 2017	December 31, 2016
Higher education	33%	35%
Secondary education	34%	35%
Technical education	5%	4%
Vocational and qualification training	28%	26%
Average number of employees	577	583

The expenses incurred for salaries and related taxed in the years of 2017 and 2016 are:

	2017	2016
Expenses related to salaries	27,904,156	27,919,696
Expenses related to social security contributions	6,011,658	6,175,263
Total	33,915,814	34,094,959

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

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25. RELATED PARTY TRANSACTIONS

	2017	2016
Sales of goods and services to subsidiaries		
Electromagnetica Goldstar	69,671	79,435
Electromagnetica Fire	14,915	15,466
Electromagnetica Prestserv	18,651	22,122
Procetel	41,457	34,994
Total	144,694	152,017
	2017	2016
Purchases of goods and services from subsidiaries		
Electromagnetica Goldstar	449,150	225,777
Electromagnetica Fire	749,939	700,270
Electromagnetica Prestserv	789,604	674,245
Procetel	975,113	1,033,815
Total	2,963,806	2,634,107
	December 31, 2017	December 31, 2016
Trade and other payables to subsidiaries		
Electromagnetica Goldstar	4,164	15,282
Electromagnetica Fire	80,685	65,020
Electromagnetica Prestserv	79,358	71,752
Procetel	-	-
Total	164,207	152,054

The remuneration of the members of the Board of Directors in 2017 was RON 251,167 (December 31, 2016: RON 270,000).

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 its registered office in Calea Rahovei 266-268, Bucharest, sector 5, registered with the Trade Registry under no, 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), In relation to Electromagnetica it carries out renting activities.

Electromagnetica Goldstar SRL is a limited liability company with its registered office in Bucharest, Calea Rahovei no, 266-268, sector 5, registered with the Trade Registry Office attached to Bucharest Tribunal under no, J40/12829/1991, Tax ID 400570, Its main object of activity is Manufacture of communication equipment (NACE code 2630), In relation to Electromagnetica it carries out renting activities.

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

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25. RELATED PARTY TRANSACTIONS (continued)

Electromagnetica Fire SRL is a limited liability company with its 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 Registry Office attached to Bucharest Tribunal under no, J40/15634/2006, Tax ID 19070708. In relation to Electromagnetica it carries out activities pertaining to fire protection, technical assistance for fire prevention and extinction and private emergency services for civil protection, interior works, electrical works and cleaning service.

Electromagnetica provides renting services to related parties Procetel, Electromagnetica Prestserv and Electromagnetica Fire.

26. EARNINGS PER SHARE

Basic earnings per share

During the reporting period, there were no changes in the share capital structure. The basic earnings per share are presented in the profit and loss account and other 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>2017</u>	<u>2016</u>
Net profit/(loss) attributable to the shareholders	(15,370,332)	4,327,847
Average weighted number of ordinary shares	676,038,704	676,038,704
Earnings per share	(0.0227)	0.0064

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 2017 and 2016, the Company registers 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.

27. INFORMATION ON SEGMENTS OF ACTIVITY

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 aggregation criterion relies on the license needed to run business and the conditions required by the license, such as presentation of separate financial statements. The electricity production and supply were aggregated as they constitute an integrated process for some of the operations.

Segment information 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.

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27. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

2017	<u>Unlicensed activity</u>	<u>% Total Company</u>	<u>Licensed activity</u>	<u>% Total Company</u>	<u>Total Company</u>
Net profit	(17,393,054)	100.0	2,022,722	n/a	(15,370,332)
Total assets	309,102,064	78.86	82,872,915	21.14	391,974,979
Total liabilities	45,289,292	59.69	30,581,235	40.31	75,870,527
Customer revenue	90,757,014	40.95	130,866,285	59.05	221,623,299
Interest income	12,684	100	-	n/a	12,684
Impairment and depreciation	8,954,765	79.70	2,280,891	20.30	11,235,656
2016	<u>Unlicensed activity</u>	<u>% Total Company</u>	<u>Licensed activity</u>	<u>% Total Company</u>	<u>Total Company</u>
Net profit	10,800,730	100.0	(6,472,883)	n/a	4,327,847
Total assets	315,543,609	80.46	76,610,343	19.54	392,153,952
Total liabilities	30,552,460	49.60	31,049,549	50.40	61,602,009
Customer revenue	101,934,763	43.78	130,893,665	56.22	232,828,428
Interest income	16,691	100	-	n/a	16,691
Impairment and depreciation	7,326,866	44.06	9,304,296	55.94	16,631,162

Main products and production structure

The Company benefits from a wide range of technologies and equipment that enabled it to obtain a rich diversity of products. The main groups of products in its turnover from the industrial production (excluding services) is as follows:

LED lighting units, systems and solutions

The production of LED lighting units has the largest share on the whole production of the Company (57.5% of the sales). In 2017, the sales increased by 4.6% as compared to the previous year. The growth trend maintains particularly in the street and commercial lighting sector. The LED lighting units are more and more demanded for export, with a share of approximately 7% in the total exports. The product range covers the following:

- Street lighting;
- Commercial premises (supermarkets, commercial galleries, gas stations, warehouses, stands, parks, showcases, advertising panels);
- Industrial premises (plants, warehouses, etc.);
- Offices;
- Public buildings (institutions, hospitals, schools);
- Residential sector.

The competitive advantage of LED lighting equipment is due to their high efficiency (over 130 lm/w), long service life and reduced maintenance costs. In addition, the LED lighting units provide high quality lighting, are environmentally friendly and can be integrated in telemanagement systems.

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27. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Electricity distribution and metering equipment

The whole production of meters and metering systems is targeted at the domestic market. The electricity meters are sold as such or integrated in EnergySys systems for electricity metering and telemanagement. In 2017, the sales of electricity meters and telemanagement systems represented less than 1 % of the total turnover of the Company, cumulating approximately 2 million lei. It should be noted that during the last years, the specific production fluctuated with the dynamics of the acquisitions carried out by the electricity distribution companies. In comparison with the previous year, 2017 brought 78 % less sales. EnergySys is already a well known product on the market, being produced in its third version. The latest version of the system reflects the worldwide trends in the field of smart networks and also the requirements imposed by the energy market regulator (ANRE). The new system allows for improved quality of the services provided, better safety in operation as well as the operation information of consumers thanks to its capacity of monitoring, measuring and sending a range of complex information to the electricity distributor.

Plastic injection molded subassemblies

The production of plastic injection molded subassemblies and molds decreased by 8.3 % as compared to the previous year. This group of products has the second largest share 35% of the total exports of the Company. The production of plastic injection molded subassemblies also benefits from the onsite manufacture and repair of the molds, manipulators and robots.

Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB Italy) was an element of continuity and stability in the production intended for export, representing approximately 43 % of the total exports. This group of products registered an increase of 18.7 % in sales, as compared to 2016.

Electricity production from renewable sources

The electricity production is regulated by ANRE; the Company has been a licensed producer since 2007. In 2017 there was no further need for investments in the 10 micro-hydro power plants (MHPs) along the Suceava River, as they had been recently modernized through an investment program completed in 2014. In 2017 the electricity production was of 11,989 MWh, being slightly exceeded the average production of the last few years.

The revenues of 2017 were higher than in the previous year as a result of an increased physical energy production and also of the fact that, starting from March 2017, the company received all the due green certificates for its current production. The deferral period set-up by OUG 57/2013 reached the end.

Between 2013 and 2017, the number of the deferred green certificates was 11281. They are to be received in installments starting from 1 January 2018, at an estimated frequency of 1000 green certificates/year. For 2018 we estimate the production to be maintained at the same level, with a number of 25,200 green certificates.

Railway traffic safety components

The sales of railway traffic safety components could not repeat the performance registered in 2016, because the projects for the railway infrastructure modernization were either completed or interrupted. The future evolution of this product category broadly depends on the timetable for the modernization of the railway infrastructure.

Other industrial products

This category includes the production of metal works and other subassemblies from the production of 2017, the sale of these products represented a total share of 1.8%.

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27. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Main services provided

Electricity supply services

The electricity supply business is regulated by ANRE. The Company has been an authorized supplier since 2001; in 2013 the license was renewed for another 10 years, under the provisions of the new energy law (Law no. 123/2012). In 2017, the turnover achieved from the electricity supply business maintained at the level of the previous year, as a result of a stabilization of the customer portfolio at a size that allows a more effective risk management. Due to the prudential policies applied on medium term, and also to the customer portfolio, before the end of 2017 the company succeeded in covering the loss suffered in the first half of the year, when it faced an extreme price volatility on the electricity market.

A significant part of the need of green certificates for the whole supply customer portfolio was covered in 2017 by the certificates obtained for the electricity produced by the company's own micro-hydro power plants.

Rental and utility supply services

Electromagnetica administers approximately 28,800 sqm of rentable premises in Bucharest, as well as 3,500 sqm in Varteju commune, Ilfov County. At the end of 2017, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 98%, for an average rental price of 6.63 euro/square meter. For the premises in Varteju commune (Magurele), the level of occupation was 100%, for an average rental price of 1.81 euro/square meter, with a downward trend, given the large supply of modern industrial space in the area and low rental demand.

The rental and utility supply activity had a slight increase of 1.56 % as compared to the previous year, in the context of a higher level of occupancy and the average Eur-Leu exchange rate which had a favorable evolution. The pressure on rental revenues will also manifest in the following period, as an effect of the downsizing of some tenants or the migration thereof to spaces rented at a lower medium price per square meter or with additional facilities. The office market will become increasingly competitive. The high level of delivery will exceed the office demand in Bucharest, possibly leading to a lower level of occupation, mainly in buildings which are old or located in hard-to-reach areas. These building will need investments in retrofitting or a reduction of the costs of occupation in order to remain competitive with the new generation of buildings, most of which are environmental-friendly, equipped with state-of-the-art facilities and excellent connections to public transport, especially to the underground.

28. RISK MANAGEMENT

The Company is exposed to the following risks:

Equity risk

Equity risk management aims to ensure the capacity of the Company to carry out its activity in good conditions through the optimization of the capital structure (equity and liabilities). The analysis of the capital structure is focused on the cost of capital and the risk associated to each category. To maintain an optimum capital structure and an appropriate debt ratio, in the last years the Company proposed to its shareholders an adequate dividend policy, able to secure own sources of funding. The absence of funding sources can limit the Company expansion on the market segments where the sale is supported through the commercial facilities offered.

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).

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28. RISK MANAGEMENT (continued)

Equity risk (continued)

The debt ratio as at December 31, 2017 was as follows:

	December 31, 2017	December 31, 2016
Total loans	-	-
Suppliers and other liabilities	39,319,304	34,424,384
Less: Cash and cash equivalents	(16,362,058)	(17,822,290)
Net Liabilities/(Assets)	22,957,246	16,602,094
Equity	316,104,451	330,551,942
TOTAL BORROWED CAPITAL	339,061,697	347,154,036
Gearing ratio	6.77%	4.78%

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. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency. The Company is paying more attention to the creditworthiness and financial discipline of its contractual partners. It should be mentioned that during the first quarter of 2017, several electricity suppliers became or declared to be insolvent. Therefore, we can speak about a deterioration of the business environment and a direct manifestation of the credit risk.

	2017	2016
Trade receivables	60,037,248	48,278,064
Other receivables	2,429,955	3,173,001
Financial assets at fair value through profit or loss	-	-
Cash and cash equivalents	16,362,058	17,822,290
	78,829,261	69,273,355

Market risk

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

The risk related to **changes in interest rates** is managed 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 exports 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.

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28. RISK MANAGEMENT (continued)

Market risk (continued)

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 2017, their situation is as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Net exposure</u>
EUR	3,307,260	536,196	2,771,064
USD	291,111	139,851	151,260

At 31 December 2016, their situation is as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Net exposure</u>
EUR	2,491,850	411,010	2,080,840
USD	570,895	124,219	446,676

The analysis of the foreign exchange risk sensitivity for a +/- 10% variation in the exchange rate shows an impact on the gross result of the period of +/- RON 1,350,095.

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.

Price risk includes the risk of changes in acquisition prices, exchange rate and interest rate. Among the markets where the Company is present, the energy market has the highest level of price risk, given the volatility of prices on the Day Ahead Market and the Balancing Market, as well as the absence of long-term risk coverage mechanisms. The behavior of the electric power producers, consisting in selling as much as possible on the spot market, increases the price risk on that market. To control the price risk on the energy market, the Company took action for reducing its exposure by re-dimensioning its customer portfolio and externalized the balancing services.

The risk of changes in the interest rates is kept under control by adopting an investment policy exclusively based on own funding sources, which allows for the use of credit lines only for the working capital.

The Company is exposed to exchange rate risk because the sourcing of materials is largely based on imports. In order to limit the effect of the exchange rates, the payment schedule was correlated with that of receipts in foreign exchange, usually ensuring a cash-flow surplus. The change in prices of raw materials and materials entailed a continuous review of cost prices. To maintain some of the products profitable, the Company cooperated with the suppliers for ensuring price control 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 decision of the general meeting of shareholders of September 14, 2017 extended the mortgage agreements in favor of the banks with which the Company has opened credit lines and letters of bank guarantee within the limit of 40% of the total fixed assets, less receivables, to ensure the Company's capacity to perform its obligations in case of short-term cash deficit. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover. The liquidity and cash-flow risk management policy should be adapted to the resized activity of electricity supply.

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28. RISK MANAGEMENT (continued)

Liquidity and cash flow risk (continued)

The risk analyzed above is closely related to the sanction-related risk and the dispute-related risk, which are described below and the new and more exigent commercial practices. This risk is closely related to the risks described.

The status of trade receivables and payables according to maturity is presented below:

	December 31, 2017	Overdue	0 - 1 year	1 - 2 years	2 - 5 years	In more than 5 years
Trade receivables	60,037,248	5,568,508	34,321,273	7,807,866	12,339,601	-
Trade liabilities	21,789,386	658,053	21,064,175	67,158	-	-
	December 31, 2016	Overdue	0 - 1 year	1 - 2 years	2 - 5 years	In more than 5 years
Trade receivables	48,278,064	5,373,409	27,748,842	4,686,755	10,469,058	-
Trade liabilities	17,774,182	902,034	16,787,544	65,290	19,315	-

Political and legislative risk

The Company's activity on regulated markets, such as the electricity supply and production market, exposes the Company to a legislative risk. For instance, the energy market was influenced by the exemption of large consumers from the obligation to pay an important part of the green certificates and also by the price changes which stimulated the export of energy.

The national implementation of European directives on energy efficiency can stimulate the sale of LED lighting solutions; at the same time, their delayed or inappropriate regulation can disturb the specific market.

Disaster 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 on 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.

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28. RISK MANAGEMENT (continued)

Fair value of financial instruments

December 31, 2017	<u>Carrying value</u>	<u>Fair value</u>	<u>Level</u>
Financial assets			
Trade receivables	60,037,248	60,037,248	Level 1
Cash and cash equivalents	16,362,058	16,362,058	Level 1
Other current assets	2,429,955	2,429,955	Level 1
	<u>78,829,261</u>	<u>78,829,261</u>	
December 31, 2017	<u>Carrying value</u>	<u>Fair value</u>	<u>Level</u>
Long term financial liabilities			
Trade and other payables	1,304,836	1,304,836	Level 1
	<u>1,304,836</u>	<u>1,304,836</u>	
Short term financial liabilities			
Trade payables	39,319,304	39,319,304	Level 1
	<u>39,319,304</u>	<u>39,319,304</u>	
December 31, 2016	<u>Carrying value</u>	<u>Fair value</u>	<u>Level</u>
Financial assets			
Trade receivables	48,278,064	48,278,064	Level 1
Cash and cash equivalents	17,822,290	17,822,290	Level 1
Other current assets	3,173,001	3,173,001	Level 1
	<u>69,273,355</u>	<u>69,273,355</u>	
December 31, 2016	<u>Carrying value</u>	<u>Fair value</u>	<u>Level</u>
Long term financial liabilities			
Trade and other payables	2,783,769	2,783,769	Level 1
	<u>2,783,769</u>	<u>2,783,769</u>	
Short term financial liabilities			
Trade payables	34,424,384	34,424,384	Level 1
	<u>34,424,384</u>	<u>34,424,384</u>	

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28. RISK MANAGEMENT (continued)

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 stock market development;
- f) the principle of proactivity.

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's corporate structure.

The risk management policies of the Company are defined so as to ensure the identification and analysis of the risks the Company is facing, determine the appropriate limits and controls 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 at developing an orderly and constructive control environment where all employees understand their roles and duties.

The internal audit of the Company's 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 facing.

29. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

As at December 31, 2017, the Company had the following commitments for bank loans and guarantee agreements/loan contracts concluded with the financing banks (BCR, BRD, LIBRA internet Banking):

- revocable credit line from BCR in amount of RON 9,000,000 not committed as at December 31, 2017.
- Guarantees: 1st, 2nd, 3rd rank mortgage on land outside the built-up area, and 1st rank mortgage on the accounts opened with BCR.
- non-cash guarantee agreement with BCR in amount of RON 30,000,000 of which the amount of RON 26,429,142 was committed.
- Guarantees: 3rd rank mortgage on the accounts opened with BCR, 1st and 2nd rank mortgages on some real estate
- Guarantee agreement acord with cash collateral amounting to EUR 16,050, Guarantee Letter issued to the beneficiary Lukoil.
- credit facility with BRD (non-cash) in amount of RON 8,000,000 of which non-cash committed as at December 31, 2017 in amount of RON 7,960,943

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29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Commitments (continued)

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

- guarantee agreement authorized overdraft of RON 15,000,

Guarantees: collateral cash deposit in amount of RON 15,000

- guarantee agreement authorized overdraft in amount of RON 75,000,

Guarantees: collateral cash deposit in amount of RON 75,000

- credit line from Libra Internet Bank in the amount of RON 5,000,000, committed on December 31, 2017, worth RON 0.01.
- Convention on the issuance of bank guarantee letters, from Libra Internet Banking in the amount of 10,000,000 lei, of which the amount of 3,027,893 lei was committed on 31 December 2017.
- mortgage on bank accounts opened on behalf of the borrower at all Libra Internet Bank units.
- the mortgage on the receivables resulting from the lease agreements for lots 13 and 15.
- mortgage on real estate - land and construction - lots 13 and 15.

The commitments from customers and tenants as letters of guarantee December 31, 2017 are in amount of RON 26,236,710 according to the contractual clauses.

Contingent liabilities

Litigation

The litigations in which the Company is involved are values that are not able to affect the financial stability of the company. The only exception, judging by the value of Hidroelectrica's claims, is the case number 13259/3/2015 which, after the court of first instance dismissed the applicant's request, is at the instance of the appeal court (Bucharest Court of Appeal).

30. SUBSEQUENT EVENTS

The influence of the regularization of the final quota of green certificates for the energy supply activity carried out in 2017 was not reflected in the financial statements due to the delayed publication of the ANRE Order no. 38 / 28.02. 2018. Regularization will have no impact on profit.

We mention that the fine of the Competition Council amounting to RON 10,024,824 of which the Company was notified at the beginning of January, was reflected in the annual financial statements as at 31 December 2017.

On January 31, 2018, the Administrative Board approved a reorganization plan due to the financial situation for 2017. Mainly, the plan refers to the dismantling of posts for reasons beyond the employee's terms and the reduction in wages in some cases. The estimated financial impact is not material to the individual financial statements.

On the date of preparation of the financial statements, the company management has no knowledge of events, economic changes or other factors of uncertainty that could significantly affect the company's liquidity or earnings, other than those specified.

BOARD OF DIRECTORS REPORT FOR THE FINANCIAL YEAR 2017

Report date:	20.03.2018
Company name:	Electromagnetica SA
Registered office:	266-268 Calea Rahovei Street, District 5, Bucharest, postal code 64021
Tel/ Fax:	021 404 2102/ 021 404 2195
Tax ID:	414118
Trade Register no.:	J40/19/1991
Regulated market:	Bucharest Stock Exchange (BVB), Equity securities, Shares, Premium Category
Stock symbol:	ELMA
Number of shares:	676,038,704
Nominal value:	0.1000 lei
Share capital:	67,603,870.40 lei

1. Company overview

Electromagnetica SA is a Romanian legal entity incorporated under the legal form of joint stock company for an unlimited duration and organized and operating under its articles of incorporation, Law no. 31/1991 republished in 2004 and amended by Law no. 441/2006, the Government Emergency Ordinances (GEO) nos. 82/2007 and 52/2008, and Law no. 24/2017 regarding the *issuers* of the financial instruments and market operations.

The Company share capital is 67,603,870.40 lei divided into 676,038,704 ordinary shares, registered and dematerialized, which are recorded in electronic account in the shareholder register held by Depozitarul Central SA (Central Securities Depository). According to the Company's articles of incorporation, its main object of activity is the manufacture of instruments and appliances for measuring, testing and navigation (NACE code 2651).

Electromagnetica SA, in its capacity of trading company whose shares are admitted to trading on a regulated market, has adopted the IFRS (International Financial Reporting Standards) starting with the financial year 2012. The financial statements for 2017 were prepared in compliance with Order no. 2844/2016 of the Minister of Public Finance (OMFP) approving the accounting regulations compliant with the International Financial Reporting Standards adopted by the European Union.

1.1. Description of the main activity

The Company carries out several manufacturing activities and services, as follows:

Production

- LED lighting units, systems and solutions
- Electricity distribution and metering equipment
- Battery charging stations for electric cars and rectifiers for industrial applications
- Railway traffic safety components
- Plastic injection molded subassemblies, electrical, electronic and metallic products for the domestic and external market
- Tools and molds
- Low voltage switchgear (fuels exported to ABB Italy)
- Electricity obtained from hydro renewable sources
- Various machining and assembling operations

Services

- Electricity supply
- Rental of real estate and supply of utilities for offices, industrial activities, etc.

Electromagnetica manufactures products of its own conception, designed and developed by its own research and development team, but it also works on orders to make various metal and injection molded plastic subassemblies, electrical devices, tools and molds.

Electromagnetica has developed its own concepts of LED lighting units and systems since 2010 and now it is in a position to offer a wide range of products for street, industrial, commercial and residential lighting. The LED lighting products represent the highest share of Electromagnetica production, the Company being the main domestic producer.

The production of electrical meters has a long tradition and it has been developed into energy measurement and remote management equipment designed to meet the highest standards in the field. The railway traffic safety components are also classical products of the Company portfolio.

The Company has its own laboratories of metrology, electromagnetic compatibility and luminotechnique.

A parallel concern was to take full profit of the Company real estate by fitting out and renting surplus premises which underwent significant modernization. The production of electricity takes place in 10 micro-hydro power plants (MHPs), located in Suceava County.

1.2. Merger and reorganization of the companies controlled by Electromagnetica 2017

The group of companies for which Electromagnetica SA is the parent-company includes the companies Procetel SA, Electromagnetica Goldstar SRL, Electromagnetica Fire SRL and Electromagnetica Prestserv SRL and they mainly represent externalizations of some services. In 2017 there were no changes in the shareholding structure of the related companies. Except for Electromagnetica Goldstar SRL, the other companies carry out their activities in direct relation with their parent company.

1.3. Main purchases and/or alienations of assets

The Company did not purchase or alienate independent assets in 2017.

In 2017, the investments were financed from own funds and totaled approximately 1.1 million euro. The main purchases were made to upgrade technological processes with new equipment, respectively TDVs (tools, devices and verifiers), measuring, control and adjustment instruments and vehicles. The company also invested in delivery vans and in various construction and modernization works for some buildings.

The value of the intangible assets purchased was low, consisting of several software licenses which were necessary for the research and development activities.

During the reporting period, no significant alienation of tangible assets took place; the Company discarded a few items and made a few low value sales of old vehicles and equipment which had been put out of service.

1.4. Main events with significant impact

During 2017, the main elements significantly impacting on the Company activity were the following:

- fluctuating order intakes for some categories of products from the company's portfolio, such as electricity meters, telemanagement systems and railway traffic safety components;
- an extreme volatility of the electricity market, mainly in the first quarter of the year, with an impact on the short-term profitability of the electricity supply business;
- a decreased share of the production in the total turnover, as a result of a reduced production volume and the stabilization in the electricity supply business.
- The increased number of turn-key LED lighting projects integrating several products and services provided by the Company (lighting units, design, installation, maintenance);
- New highly efficient LED lighting units started to be manufactured, to maintain sales on the most dynamic market segments (street lighting) and compensate the reduction of the growth potential on other segments (commercial lighting);
- The rental income was maintained as a result of the high level of occupancy and the influence exercised by the exchange rate;
- The normal hydrological conditions allowed for a renewable energy production to reach the average amount achieved in the last years.

1.5. Overall evaluation elements

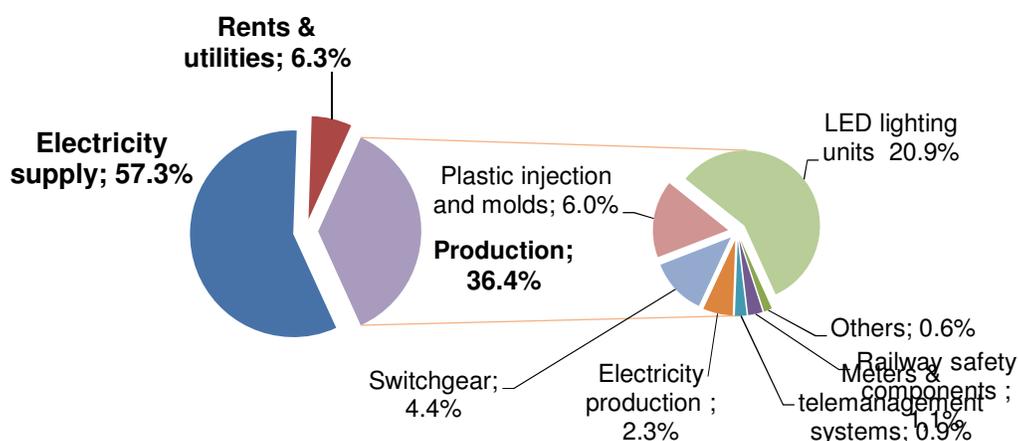
No.	Specification	2017	2016	2017 vs 2016
1	Total revenue (lei)	245,532,388	273,435,067	(10.2%)
2	Total expenses (lei)	260,502,768	268,200,854	(2.9%)
3	Gross profit (lei)	(14,970,380)	5,234,213	-
4	EBITDA margin	3.25%	6.15%	(2.9%)
5	EBIT margin	(6.52%)	1.43%	(7.95%)
6	Net profit ratio	(6.26%)	1.58%	(7.8%)
7	Current liquidity	141%	197.3%	(58%)
8	Capital solvency	81%	84.12%	(3.6%)
9	ROE	(4.86%)	1.31%	(6.2%)
10	Accounts receivable collection period (days)	100	76	22
11	Supplier payment period (days)	73	62	11
12	Average active employee headcount	577	583	(1%)

The Company achieved operational profits, with 3.25 % EBITDA margin which was lower than in 2016. Due to the decreasing revenues and influence of some exceptional non-recurring expenses (the fine imposed by the Competition Council and the debt of some insolvent customers), the net profit margin was negative, namely 6.2 %. In this context, the current liquidity indicator decreased accordingly up to 141%. At the same time, solvency registered a slight decrease up to 81 %, thus maintaining at a very good level.

The time for claim recovery significantly increased to 100 days, in line with the supplier credit policy for recovery deadlines of more than one year. The time for paying suppliers slightly increased from 62 to 73 days.

In 2017, the turnover structure indicated a balance between production and services.

Turnover structure in 2017

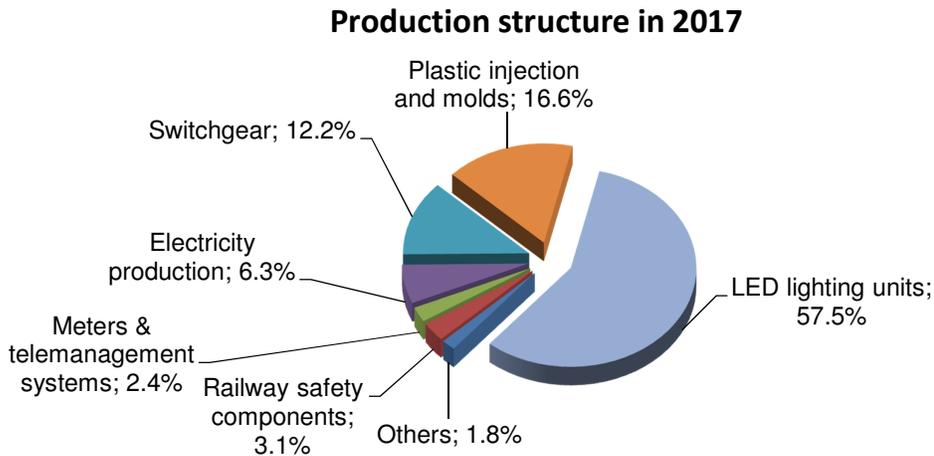


The production-related income decreased by approximately 13 %, while those resulted from electricity supply services as well as the rental services stabilized, maintaining at the level of the previous year. The main production value increase was registered for switchgear, electricity production and LED lighting units. Production mainly decreased for electricity meters and telemanagement systems, as well as for railway traffic safety components.\

2. Evaluation of the Company technical level

2.1. Main products and production structure

The Company benefits from a wide range of technologies and equipment that enables it to obtain a rich diversity of products. The share of the main groups of products in the production-related turnover (excluding services) is as follows:



2.1.1. LED lighting units, systems and solutions

The production of LED lighting units has the largest share on the whole production of the Company (57.5% of the sales). In 2017, the sales increased by 4.6% as compared to the previous year. The growth trend maintains particularly in the street and commercial lighting sector. The LED lighting units are more and more demanded for export, with a share of approximately 7% in the total exports. The product range covers the following:

- Street lighting;
- Commercial premises (supermarkets, commercial galleries, gas stations, warehouses, stands, parks, showcases, advertising panels);
- Industrial premises (plants, warehouses, etc.);
- Offices;
- Public buildings (institutions, hospitals, schools);
- Residential sector.

The competitive advantage of LED lighting equipment is due to their high efficiency (over 130 lm/w), long service life and reduced maintenance costs. In addition, the LED lighting units provide high quality lighting, are environmentally friendly and can be integrated in telemanagement systems.

2.1.2. Electricity distribution and metering equipment

The whole production of meters and metering systems is targeted at the domestic market. The electricity meters are sold as such or integrated in EnergSys systems for electricity metering and telemanagement. In 2017, the sales of electricity meters and telemanagement systems represented less than 1 % of the total turnover of the Company, cumulating approximately 2 billion lei. It should be noted that during the last years, the specific production fluctuated with the dynamics of the acquisitions carried out by the electricity distribution companies. In comparison with the previous year, 2017 brought 78 % less sales. EnergSys is already a well known product on the market, being produced in its third version. The latest version of the system reflects the worldwide trends in the field of smart networks and also the requirements imposed by the energy market regulator (ANRE). The new system allows for improved quality of the services provided, better safety in operation as well as the operation information of consumers thanks to its capacity of monitoring, measuring and sending a range of complex information to the electricity distributor.

2.1.3. Plastic injection and molds

The production of plastic injection molded subassemblies and molds decreased by 14.3 % as compared to the previous year. This group of products has the second largest share (37%) of the total exports of the Company. The production of plastic injection molded subassemblies also benefits from the onsite manufacture and repair of the molds, manipulators and robots.

2.1.4. Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB Italy) was an element of continuity and stability in the production intended for export, representing approximately 43 % of the total exports. This group of products registered an increase of 18.7 % in sales, as compared to 2016.

2.1.5. Electricity production from renewable sources

The electricity production is regulated by ANRE; the Company has been a licensed producer since 2007. In 2017 there was no further need for investments in the 10 micro-hydro power plants (MHPs) along the Suceava River, as they had been recently modernized through an investment program completed in 2014. In 2017 the electricity production slightly exceeded the average production of the last few years. Approximately 45% of the green certificates needed to supply energy have been provided by green certificates for their own energy production.

The revenues of 2017 were higher than in the previous year as a result of an increased physical energy production and also of the fact that, starting from March 2017, the company received all the due green certificates for its current production.

Between 2013 and 2017, the number of the deferred green certificates was 11281. They are to be received in installments starting from 1 January 2018, at an estimated frequency of 1000 green certificates/year. For 2018 we estimate the production to be maintained at the same level, with a number of 25,200 green certificates.

2.1.6. Railway traffic safety components

The sales of railway traffic safety components could not repeat the performance registered in 2016, because the projects for the railway infrastructure modernization were either completed or interrupted. The future evolution of this product category broadly depends on the timetable for the modernization of the railway infrastructure.

2.1.7. Other industrial products

This category includes the production of metal works and other subassemblies from the production of 2017, the sale of these products represented a total share of 1.8%.

2.2. Main services provided

2.2.1. Electricity supply services

The electricity supply business is regulated by ANRE. The Company has been an authorized supplier since 2001; in 2013 the license was renewed for another 10 years, under the provisions of the new energy law (Law no. 123/2012). In 2017, the turnover achieved from the electricity supply business maintained at the level of the previous year, as a result of a stabilization of the customer portfolio at a size that allows a more effective risk management. Due to the prudential policies applied on medium term, and also to the customer portfolio, before the end of 2017 the company succeeded in covering the loss suffered in the first half of the year, when it faced an extreme price volatility on the electricity market.

A significant part of the need of green certificates for the whole supply customer portfolio was covered in 2017 by the certificates obtained for the electricity produced by the company's own micro-hydro power plants.

2.2.2. Rental and utility supply services

Electromagnetica administers approximately 28,800 sqm of rentable premises in Bucharest, as well as 3,500 sqm in Varteju commune, Ilfov County. At the end of 2017, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 98%, for an average rental price of 6.63 euro/square meter. For the premises in Varteju commune (Magurele), the level of occupation was 100%, for an average rental price of 1.81 euro/square meter, with a downward trend, given the large supply of modern industrial space in the area and low rental demand. As of 31 December 2017, the structure of the rentable premises by their destination was as follows:

Item no.	Destination of rentable premises at the headquarters	Share %	Destination of rentable premises in Varteju	Share %
1	Offices	53.93	Offices	6.29
2	Warehouses	20.95	Warehouses	42.00
3	Production	17.44	Production	42.73
4	Services	7.68	Services	8.98

The rental and utility supply activity had a slight increase of 1.56 % as compared to the previous year, in the context of a higher level of occupancy and the average Eur-Leu exchange rate which had a favorable evolution. The pressure on rental revenues will also manifest in the following period, as an effect of the downsizing of some tenants or the migration thereof to spaces rented at a lower medium price per square meter or with additional facilities. The office market will become increasingly competitive. The high level of delivery will exceed the office demand in Bucharest, possibly leading to a lower level of occupation, mainly in buildings which are old or located in hard-to-reach areas. These building will need investments in retrofitting or a reduction of the costs of occupation in order to remain competitive with the new generation of buildings, most of which are environmental-friendly, equipped with state-of-the-art facilities and excellent connections to public transport, especially to the underground.

2.3. New products for which additional resources are to be allocated. New product stage of development

In 2018, a focus will be set on technological improvement which will lead to lower production costs. For the production of LED lighting units we will develop semi-automatic assembling technologies, while the encapsulation of supply sources with compound material will be generalized.

We will continue the activities of research, design and manufacturing of LED lighting units and new types of charging stations for electrical vehicles, the implementation of lighting management systems. We will start to integrate our automation systems in the platform of Smart City solution. We will continue the program for the development of EnergySys, the smart system for electricity measurement.

We believe that the current technology largely covers the achievement of these goals and we only need to allocate additional assets for the design of tools and devices.

3. Evaluation of the sourcing activities

The prices of raw materials and other materials increased slightly, being mainly affected by the increase of the exchange rate and the higher price of the better performing, state-of-the-art components used in the LED lighting units. In the absence of domestic suppliers, the Company had to make most of its purchases from import or local dealers. As the delivery deadlines became increasingly longer, the optimization of the value of lots and inventories became more difficult and negatively impacted on the production costs.

In general, the sources for the production supplies are reliable and the objective is to maintain a minimum number of 2 suppliers / product type.

In terms of ensuring the energy resources necessary for the electricity supply activity, the price predictability was low given that both those producing from renewable sources and those producing from conventional sources sold most of their production under short-term contracts, therefore at volatile prices, to the detriment of long-term contracts. In the first months of the year the Company confronted with a rise of prices on the day-ahead market up to record values. In this context of extreme volatility, the Company adopted a balanced purchasing policy, combining purchases under long-term contracts with those on the Day Ahead Market.

4. Evaluation of the sale activity

4.1. Evolution of sales on the domestic and external market and perspectives for medium- and long-term sales

The licensed production and supply of electricity are only carried out on the domestic market. The production of meters, energy telemanagement systems, railway traffic safety components, as well as the rental services, are exclusively sold on the domestic market. Our sales on the domestic and external markets evolved differently. While exports increased by 9.3 % as compared to the previous year, the sales on the domestic market decreased by 19.5 %, except that not all the product groups registered a fall, but only those for which the Company depends on the orders from a customer or a group of customers.

Export is traditionally sustained by the low voltage electrical switchgear and a large part of the plastic injection mold production. In the following period the production of plastics will be progressively directed towards products with a higher level of complexity, a change that will also lead to a higher profitability. The LED lighting units had also a great contribution to the increased exports which in 2017 reached 14% of the total exports made by our Company. The upward trend in the exportation of LED lighting units will be maintained in 2018. We estimate that the exports will grow by 30% for these products. The Company's exports are mainly directed to the euro zone, in countries such as Italy, Germany, France, Bulgaria, but also to Serbia, Bosnia and the Republic of Moldova.

The distribution on the market of the LED lighting units and systems is mainly done directly by the Company through its specialized division from the commercial directorate. The development of a larger number of turn-key projects ensured the sale of a more products and services. One of our priorities for 2018 is to achieve a balanced structure of the production of LED lighting units by raising the lighting products for the commercial and office sectors to the level of the products for public lighting.

With respect to the assurance of medium- and long-term distribution, we mention that the average duration of rental agreements is approximately 2 years, while the average duration of electricity supply contracts is 1 year, while production is generally based on short-term orders, except for the production of meters and remote management equipment that are contracted annually. The contracts for the sale of LED lighting systems through supplier-credit are usually concluded for a period of 5-6 years.

4.2. Market shares and competitors

The LED lighting technology is now the main lighting solution, achieving more and more fame. Electromagnetica is the main domestic producer of products competing with those imported from other countries. Among Electromagnetica products, the most successful were the lighting units for commercial and industrial premises, as well as the street lighting units. The Company has a wide range of LED products competing on several price segments. The main competitors of the Company are Philips and Schreder (high price), Elba, Amiras, Electromax, Greentek (medium price) and Spot Vision, Urbio and Urban Lighting (low price segment).

The electricity meters and the measurement and distribution equipment are intended for the electricity distribution companies. In their plans for network modernization, they also included investments in smart metering. The short-term objective of our Company is to maintain its market share, to exploit our experience, to make the technical level of our products match our competitors and to adapt our products to customer needs. The main local manufacturers and competitors of Electromagnetica are AEM Timisoara and Elster.

Significant changes in market shares are taking place on the market of electricity supply services due to the appearance of new suppliers and the migration of consumers from one supplier to another. In the first 11 months of 2017, the share held by Electromagnetica on the competitive market was less than 1 % as shown in the ANRE report on energy market monitoring for the month of November 2017.

On the local market of railway traffic safety systems, the number of purchase orders depends on the progress of the programs for the modernization of the railway infrastructure, provided that the Company takes the necessary steps to ensure the flexibility of its production and to be able to cope with the fluctuating orders.

4.3. Significant dependencies of the Company on a customer or group of customers

The products with a large share at the moment, such as LED lighting units and injection molded products are targeted at a wide customer portfolio and do not depend on a certain customer or group of customers. As regards the meters and telemanagement systems, the Company depends on the traditional beneficiaries, i.e. the electricity distribution companies. The same applies to the railway traffic safety components intended for the ultimate beneficiary CFR Infrastructura. The possible difficulties encountered by these customers in the continuation or financing of their modernization programs could affect the level of orders received by the Company.

5. Evaluation of personnel-related issues

The high qualification level of employees enabled the Company to carry out not only production activities, but also research and development activities. In 2017, the average headcount was 577, i.e. 1% less than in the previous year, of which 33% employees with higher education and 34% with secondary education. The Company employees follow a continuing vocational training program, each of them benefiting, on average, from 44 hours/year internal and external professional training in quality, occupational health and safety, environment protection etc. In 2017 there was no case of occupational disease and no event with a major impact on human health. The management and employees interact in normal conditions. The unionization rate is approximately 72% and there were no labor conflicts between the management and the union. More information about the social and staff policy, the policies on occupational health and safety, respect for human rights and the related risks and key performance indicators is available in the non-financial declaration of the Board of Directors for 2017, published together with this report on the Company website www.electromagnetica.ro.

6. Company business impact on the environment

We are fully compliant with the requirements of our Integrated Management System and continually improve its effectiveness, establishing, monitoring and reviewing our objectives. As a responsible organization, we aim to offer value to our partners and consider that Quality, Health and Safety at work, as well as the Environment are important issues integrated in the culture of our Company.

The Company holds all the environmental permits required under the law for its business. The issuer does not carry out activities with significant impact on the environment and there are no litigations related to breaches of the legislation on environmental protection.

We invite our staff, contractors and suppliers to actively participate in the fulfillment of our objectives concerning Quality of operations, Health and Safety at work and Environment, through the implementation of all the relevant regulations and programs adopted.

The Company carries out an effective environmental risk control, implementing and complying with the waste management procedures, emergency procedures, production retrofitting, designing and testing new environmental-friendly products, standardizing and optimizing products. One of the research and development objectives is to implement new energy-efficient and less polluting manufacturing technologies and launch new products with reduced environmental impact during their service life.

The production of electricity from renewable sources in micro-hydro power plants is considered an activity which has no impact on the environment.

Further information about the Company environmental policy, the risk factors and key performance indicators is available in the non-financial declaration of the Board of Directors for 2017, published together with this report on the Company website www.electromagnetica.ro.

7. Evaluation of the research and development activity

The research-design-development activity is carried out within three departments: the Research and Design Department, which includes the Photometry and Electromagnetic Compatibility Laboratory, the Electrical Equipment Design and Communication Department, and also the Self-Equipping Design Workshop. Considering that most of the products manufactured by Electromagnetica are products of its own conception, 11.8 % of the Company staff worked in research-design-development, a percentage that is to be reduced to approximately 10.5 % in 2018.

7.1. Research and Design Department

LED lighting

In 2017, the main objective in the field of applied research was to start manufacturing heaters from thermally conductive plastics of polymeric compounds filled with graphite. Two producers of such materials were certified: one in Italy and one in USA. We also succeeded in manufacturing the first lot of LED projectors injected on the machines the Company had onsite. The implementation of this technology will raise the added value, improve the design of the lamps and create the premises for the replacement of metal heaters (aluminum) with plastics heaters with thermal conductive properties. An immediate result of the application of this technology is the release of the iron sheet machining equipment (Trumpf) and assembling equipment (Tox) which had been overloaded at times when the manufacturing exceeded the machining capacity.

The lighting units portfolio reached 530 design versions of which 163 new or upgraded products were manufactured in 2017. As for the fittings designed for indoors applications, we succeeded in removing the "pixel" effect of the light source, a solution applied in the design of INDO and ATLAS units.

For street lighting we made CIL ELMA, with an "open frame" supply source mounted under a disperser, using SMD technology, with protection against 6kV and 10kV overvoltage, according to SR EN 61000-4-5. Our product called ORION was upgraded for 30, 45 and 60 W and costs were reduced by 20 euro as compared to the previous versions.

Also in 2017 we continued to implement the smart lighting management systems. An adaptive lighting system in a road tunnel was built in Bosnia, where the level of lighting varies with the intensity of the light outside the tunnel. A second adaptive system for street lighting was built in Romania, where the level of lighting varies with the road traffic.

Our photometric and electromagnetic compatibility laboratory got an extension of its Renar certification Renar for four more fields: (1) luminance and contrast determination for emergency indicators, according to SR EN 60598-2-22, EN 1838; (2) determination of harmonic current emissions in electric equipment, according to SR EN 61000-3-2:2014; (3) determination of harmonic current emissions in street lamps, according to SR EN 13201-1,3 and 4-22; (4) electromagnetic compatibility in the frequency range 30MHz-300MHz, according to SR EN 55015.

In 2018, our main goal is to establish and implement technological solutions which lead to a reduction of the production cost. In this respect, we will develop semi-automatic assembling technologies to remove, either totally or partially, the manual screw assembly of dispersers on the lamps; we will generalize the encapsulation of lighting units with electrical insulating and thermally conductive compounds and we will continue the design and manufacturing of heaters and passive cooling systems from thermally conductive plastics, so as to replace the current heaters made of aluminum alloy.

Furthermore, within our main goal, we will continue the research and designing for lighting units with improved design or special purposes: chicken farms, RGB architectural lighting, stadium lighting. In 2018, we will also start integrating the street lighting management and video surveillance of road junctions into an application platform within the Smart City solution.

Charging equipment for electric vehicles

The Company's development strategy has also considered the electro mobility infrastructure as a way to grow and exploit its experience in the field of energy.

In 2017 we completed the designing and started to manufacture the first charging stations for AC electric vehicles, which ensure a maximum charging power of 22 kW/h at 32A (ELMotion Power 22). Our offer already includes several versions of charging stations, some of them being in service at customer sites. The first implemented option was the validation of charging with RFID cards. The Company is developing other billing options: validation of charging and payment by SMS, validation of charging and payment by QR code, validation of charging and payment by contactless bank card, control and communication through graphical interface.

The research and development program dedicated to charging stations takes priority in developing high power DC charging stations which ensure much shorter charging times. At the same time., the range of AC charging stations for electric vehicles will be extended with new models, in a new design, a concept demanded by the market.

7.2. Research and Development Department for Electrical Equipment Design and Communication

During 2017, we continued the program for the development of the remote reading and remote management system ENERGSys, a registered mark of Electromagnetica SA, in accordance with the new regulations of ANRE regarding the operation and interoperability requirements for the smart electricity measurement systems (SMI) to be installed at a large scale in Romania. Electromagnetica involved actively in the work group organized by ANRE to establish the requirements for interoperability between these systems, aiming at completing the ANRE draft order concerning the large scale SMI installation and the setting of the timetable of its implementation.

ANRE draft order, which is currently subject to public debate from March to November 2017, provides the 100% installation, spread over until 2026, of the smart electric metering systems for all household customers and small economic operators connected to low voltage. ANRE Order no. 25/2018, approved in February 2018, provides the continuation of the installation of these systems during 2018, in a proportion of maximum 10% of the volume of investment for this year, while until September 2018 the new plan will be approved for the implementation at national level of the smart metering systems.

The development of EnergSys 3 system (the version launched in 2015) we took into account the latest ANRE regulations on the functional requirements and the method of evaluation of smart measurement system pilot projects, the performance of a cost-benefit analysis for each of the pilot projects approved to be installed, as well as of the provisions on the installation of such pilot projects in areas which require the execution of works for the rehabilitation of the low voltage distribution network (ANRE Order no. 145/2014 as further amended). At the same time, we took into account the need to extend the bidirectional communication interface of the system and to ensure interoperability with other systems in terms of automatic exchange of data. In this context, the continuation of the program for the development of ENERGSys system is both appropriate and essential for the fulfillment of its potential on the market.

7.3. Self-Equipping Design Workshop

The Self-Equipping and Maintenance Workshop manufactures, on a one-off basis, means of production for the mechanization and automation of the serial production, for supporting the technical program for new technologies and products and for ensuring the environmental and organizational conditions at work. In 2017, we optimized the manufacturing technology for the one-phase static meter, created devices for fixing screws simultaneously on the shunt, for checking meters without load, closing meter caps, pneumatic activation of the device used to cut component terminals and we built two calibration benches in order to increase the production capacity. In 2018, the Self-Equipping and Maintenance Workshop will make the means of production designed for the mechanization and automation of the technical solutions necessary for us to fulfill our main objective.

The Company's strategy attaches great importance to the research and development activities, so as to upgrade its existing products and launch new ones which would ensure its sustainable development.

8. Risk management objectives and policies

The risk management policies of the Company are defined in such a way that they ensure the identification, monitoring and analysis of the risks which the Company faces, establishing, at the same time, the limits of exposure. The risk management policy provides effective means of control and a favorable environment where all employees understand their roles and obligations.

Price risk

Price risk includes the risk of changes in acquisition prices, exchange rate and interest rate. Among the markets where the Company is present, the energy market has the highest level of price risk, given the volatility of prices on the Day Ahead Market and the Balancing Market, as well as the absence of long-term risk coverage mechanisms. The behavior of the electric power producers, consisting in selling as much as possible on the spot market, increases the price risk on that market. To control the price risk on the energy market, the Company took action in order to reduce its exposure within short-term contracts and externalized its balancing services.

The risk of changes in the interest rates is maintained under control by adopting an investment policy exclusively based on own funding sources, which allows for the use of credit lines only for the working capital.

The Company is exposed to an exchange rate risk because the sourcing of materials is largely based on imports. In order to limit the effect of the exchange rates, the payment calendar was correlated with that of receipts in foreign exchange, usually ensuring a cash-flow surplus. The change of the raw materials and materials prices imposed a continuous review of cost prices. To maintain some of the products profitable, the Company cooperated with the suppliers for ensuring price control and the related technological processes were improved.

Penalty risk

At the beginning of 2018, the Company was notified by the Competition Council on its Minute dated 20 December 2017, case no. 10/2017, whereby the Council decided to sanction Electromagnetica with a fine of LEI 10,024,824.88 lei representing 4.23% of its turnover for 2016, for an alleged breach of Article 5 (1) of the Competition Law and Article 101 (1) of TFEU. After the Company receives the reasoned decision of the Competition Council, it will challenge the sanction in court. This fine is taken into account in the financial result for 2017.

Dispute-related risk

The Company is involved in disputes involving small values which cannot affect its financial stability. The only exception, given the value of the claim submitted by plaintiff Hidroelectrica, is the case no. 13259/3/2015 pending before the court of appeal (Bucharest Court of Appeal), after the claim of the plaintiff was rejected by the court of first instance.

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. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency. The Company is paying more attention to the creditworthiness and financial discipline of its contractual partners. It should be mentioned that in Q1 several electricity suppliers became insolvent or applied for insolvency. Therefore, we can speak about a deterioration of the business environment and a direct manifestation of the credit risk.

Equity risk

Equity risk management aims to ensure the capacity of the Company to carry out its activity in good conditions through the optimization of the capital structure (equity and liabilities). The analysis of the capital structure is focused on the cost of capital and the risk associated to each category. To maintain an optimum capital structure and an appropriate debt ratio, in the last years the Company proposed to its shareholders an adequate dividend policy, able to secure own sources of funding. The absence of funding sources can limit the Company expansion on the market segments where the sale is supported through the commercial facilities offered.

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 decision of the general meeting of shareholders of 14 September 2017 extended the mortgage agreements in favor of the banks with which the Company has open credit lines and letters of bank guarantee within the limit of 40% of the total non-current assets, less receivables, to ensure the Company's capacity to perform its obligations in case of short-term cash deficit. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover.

The liquidity and cash-flow risk management policy should be adapted to the new and more demanding commercial practices. The risk analyzed above is closely related to the sanction-related risk and the dispute-related risk, which are described below and the new and more exigent commercial practices. This risk is closely related to the risks described above.

Disaster risk

The production of electricity in low power plants without dams is subject to the risk of destruction caused by floods. Under these circumstances, the Company concluded insurance policies to protect not only the MHPs, but also its headquarters against disasters.

Political and legislative risk

The Company's activity on regulated markets, such as the electricity supply and production market, exposes the Company to a legislative risk. For instance, the changes related to taxation or employment relationships may have a significant impact upon the Company's business.

9. Company business prospects

9.1. Presentation and analysis of trends, elements, events or uncertainty factors that affect or could affect company liquidity compared to the same period of the previous year

Market trends

LED lighting technology is preferred within every large project for the modernization of lighting systems, so that the growth potential is maintained. To increase competitiveness it is necessary to improve the product quality up to a level that would allow for the extension of the warranty period and the reduction of replacement costs. Another market trend is the increase of revenues from activities relating to LED lighting unit production, for example through facility design and assembly services.

The energy market is subject to the influence of several factors. First, the producers and suppliers maintained an abnormal practice of excessively trading energy under short-term contracts, to the detriment of the long-term contracts. Secondly, under the pressure of a competition intensified by the entry of new players into the market, some of the suppliers accepted increasingly high risks in energy acquisition. This behavior showed its limits at the beginning of 2017 when, in the context of an enhanced volatility of prices on DAM, several suppliers became insolvent. A larger number of insolvency cases could affect the liquidities of the Company due to an increased claim recovery period. The connection of the electricity market with the regional market favored the alignment of the prices, but there was no impact on the volatile character of the electricity market. There are signs of market reorientation towards a more predictable business model, a trend materialized in the appearance of some offers of energy supply at a fixed price and for a 2-year period, intended for household customers.

Commercial policy trends

The large LED lighting systems, such as those designed for street lighting in municipalities were also promoted through credit-supplier facilities, which are particularly addressed to municipalities. For 2018, given the projects financed by EU funds accessed by municipalities, we estimate there will be less need to grant such supplier-credits for public lighting. The Company will continue to sell its LED lighting systems under supplier credit facilities for medium and large scale projects, if this confers it a competitive advantage. The application of this commercial policy requires a sufficient level of available cash; therefore, the Company intends to identify additional funding sources. At the same time, the Company's commercial policy seeks to monitor the number of days established by contract for the payment of debts by customers.

The sales within the electricity supply business stabilized, in spite of the strongly fluctuating prices on the energy market. This confirms that the restructuring of the customer portfolio in the previous years was successful, resulting in a new quality portfolio of customers who adhered to the more prudent and balanced policy of our company. Even if this policy cannot grant a higher rate of return, it has the advantage of a stability which favors business continuation and good risk management.

Uncertainty factors

The worldwide accelerated dynamics of innovation in the field of LED lighting technology is an uncertainty factor as regards the pricing of new materials and components.

For the revenues from the production of energy, the main factor of uncertainty is the level of rainfall which influences the physical production of electricity in micro-hydro power plants.

The volume of purchase orders for exports is, by nature, less predictable on medium and long term.

The supply of energy is confronted with the volatility of energy prices. The increase of production capabilities in wind and solar power plants adds a factor of uncertainty with regard to the quantitative offer on the day-ahead market and increases the volatility of energy prices.

The period for receivables collection becomes uncertain in the context of an increased frequency of insolvency cases among electricity consumers or suppliers.

9.2. Presentation and analysis of the effects of current or expected capital expenditure on the Company financial standing

Aiming to maintain a high technical level, to raise production capacity and labor productivity, in 2017 the Company recorded purchases of technological equipment, measuring and checking devices and instrumentation and investments in delivery vans amounting to 2.56 million lei. In 2018, the investments will continue to be directed to the refitting and upgrading of the production capacities, as well as to the modernization of buildings, to which will add the projects postponed from the previous year, for the modernization of several substations and electrical installations, as well as the achievement of an increased power of 5.2 MW. The investment program is estimated at approximately 2.6 million euro, but it will be, as before, conditional on the existence of own financing sources.

10. Tangible assets of the Company

10.1. The production facilities of the Company are mainly located at its headquarters at 266-268 Calea Rahovei Street, district 5, Bucharest, except for the facilities producing energy from renewable sources, which are located in Suceava river basin, Radauti area, over approximately 70 km. The production facilities of the Company include technologies such as: machining, sheet metal processing (stamping, bending, cutting, milling), plastic injection, technological assembling operations, etc. They are characterized by complexity, accuracy, flexibility, automation etc.

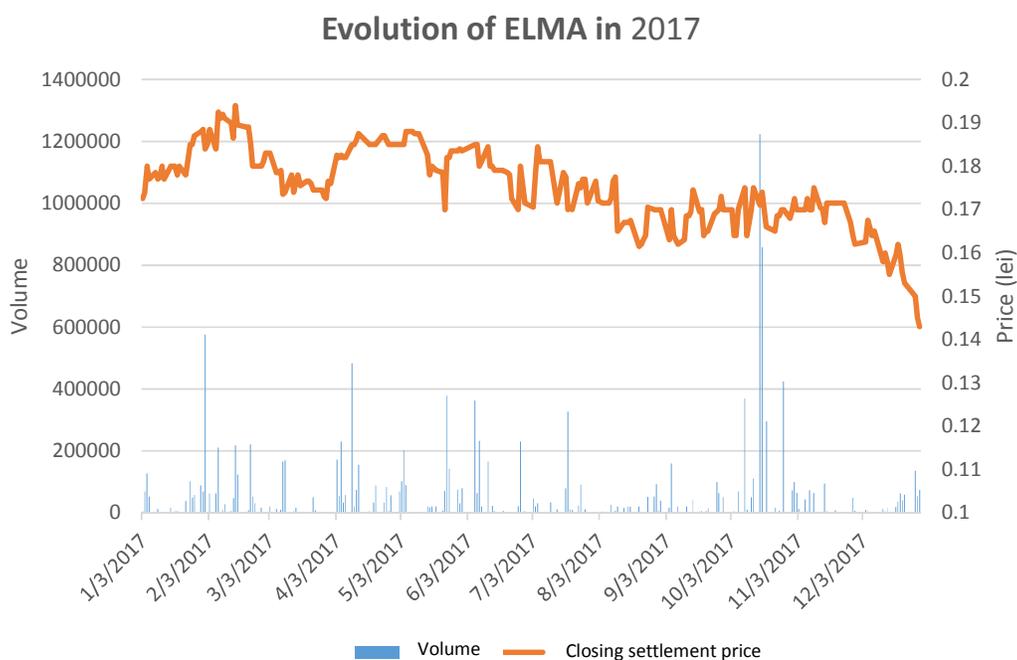
10.2. The Company is not involved in any litigation concerning the ownership of the land pertaining to its headquarters in Bucharest, 266 - 268 Calea Rahovei Street or to its micro-hydro power plants in Radauti area.

11. Securities market

Electromagnetica is listed on the Bucharest Stock Exchange (BVB), for Premium Category, with the following trading characteristics:

Stock symbol: ELMA
Ordinary, nominative, dematerialized shares
Number of issued shares: 676,038,704
Nominal value: 0.1000 lei
Share capital: 67,603,870.40 lei
ISIN code ROELMAACNOR2
Bloomberg ID: BBG000CMQBR5
Reuters symbol: ROELMA.BX
Lei code: 254900MYW7D8IGEFRG38

The ELMA shares are part of the BET Plus index. Due to reduced liquidity, their weight within this index decreased to 0.19 %.



The shares traded in 2017 totaled 1.94% of the Company share capital, at an average price of 0.1765 lei/share (calculated for all market segments). The reference price varied between a minimum of 0.1430 lei and a maximum of 0.1940 lei/share. The closing settlement price at the end of 2017 was 0.1430 lei/share, 16.4% less than at the end of the previous year, corresponding to a market capitalization of 96.67 million lei.

12. Individual financial an accounting statement as of 31 December 2017

(all amounts expressed in Lei, unless otherwise specified)

12.1. Financial position

	<u>31 December 2017</u>	<u>31 December 2016</u>
ASSETS		
Non-current assets		
Tangible assets	286,427,678	292,544,407
Investment property	4,555,912	4,631,885
Intangible assets	1,247,495	1,635,414
Investments in affiliated entities	3,967,606	3,967,606
Other long-term non-current assets	19,802,564	16,994,518
Total non-current assets	<u>316,001,253</u>	<u>319,773,830</u>
Current assets		
Inventories	16,763,968	17,407,304
Trade receivables	40,417,745	33,977,526
Cash and cash equivalents	16,362,058	17,822,290
Financial assets at fair value through profit or loss	-	-
Other current assets	2,429,955	3,173,001
Total current assets	<u>75,973,726</u>	<u>72,380,121</u>
Total assets	<u>391,974,979</u>	<u>392,153,952</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	67,603,870	67,603,870
Reserves and other equity items	182,561,233	180,407,837
Reported result	65,939,348	82,540,235
Total equity of Company shareholders	<u>316,104,451</u>	<u>330,551,942</u>
Non-current liabilities		
Trade creditors and other payables	1,304,836	2,783,769
Investment subsidies	4,736,743	4,899,962
Deferred tax liabilities	16,088,691	17,242,351
Total non-current liabilities	<u>22,130,270</u>	<u>24,926,082</u>
Current liabilities		
Trade creditors and other payables	39,319,304	34,424,384
Investment subsidies	163,219	163,219
Provisions	13,744,272	1,833,135
The current income tax	513,462	255,189
Total current liabilities	<u>53,740,257</u>	<u>36,675,928</u>
Total liabilities	<u>75,870,527</u>	<u>61,602,009</u>
Total equity and liabilities	<u>391,974,979</u>	<u>392,153,952</u>

The comparative analysis of the balance sheet items revealed the following:

The tangible assets reduced as a result of the high level of write-offs as compared to the low level of investment.

The long term non-current assets registered a 16.5 % rise as a result of the increased receivables having more than one year collection due date, generated by the sales under credit-supplier facility. It should be noted that in 2017 the deferred green certificates were recorded off-balance sheet, in accordance with Ordinance no. 895/16.06.2017. That change equally influenced the long-term liabilities which decreased by 11 %.

The current assets increased by 5 %, mainly as a result of increased trade receivables.

The average period for debt collection increased to a larger extent than the average period for payment of suppliers. This had a negative impact on the cash level which decreased by 8 %.

The trade receivables increased by 19 %. It was an assumed increase, following the continuation of our commercial policy on sales under supplier-credit facilities.

Own equity decreased by 4 % as a result of the loss recorded in the reporting period.

The current payables increased by 46.5 %, due, on the one hand, to the higher balance of trade payables, and, on the other hand, to the provisions made against the debt of a customer subject to insolvency proceedings and for the payment of the fine to the Competition Council. In 2017, the share of the liabilities within the total assets registered a slight decrease up to 19 %.

12.2. Individual statement of profit and loss:

	31 December 2017	31 December 2016
Revenue	221,623,299	234,188,009
Investment income	344,648	4,019,247
Other net revenue	(9,754,854)	4,906,997
Changes in inventories of finished goods and work in progress	13,407,878	15,924,804
Work performed by entity and capitalized	1,617,287	1,246,195
Raw materials and consumables used	(165,663,451)	(169,435,104)
Personnel expenses	(33,915,814)	(34,094,959)
Amortization and depreciation expenses	(11,235,656)	(16,631,162)
Other expenses	(30,722,229)	(34,250,873)
Financial expenses	(671,488)	(638,941)
Profit/(Loss) before tax	(14,970,380)	5,234,213
Income tax	(399,952)	(906,366)
Profit for the period	(15,370,332)	4,327,847

The revenues from sales to customers decreased by 5%. The revenues from the electricity supply business stabilized. The Company registered increase in the production of lighting units and systems, switchgear, rental activities and electricity production, while it got less revenues from the sale of meters and remote management systems, railway traffic safety components, injection molded plastic assemblies and molds.

According to a re-evaluation of the Company's assets at the end of 2016, the depreciation and amortization expense increased by 18 % in 2017 as compared to the previous year.

The loss recorded for 2017 was mainly due to the following:

- The high level of provisions and write-offs;
- The establishment of a provision of 10 million lei following the note received from the Competition Council in January 2018 concerning the sanction imposed against the Company for an alleged breach of the competition law;
- In the second semester of 2017, the electricity supply business recovered the total loss recorded in the first semester. It should be noted that in Q1 of 2017, the troubles existent in the energy market caused the purchase prices to reach record values and the Company had a significant loss. For the same reasons, one customer and debtor of our company became insolvent. For that debt the Company had made a provision of 2 million lei.
- The production business registered loss as a result of the fluctuating orders and the implicit decrease of the turnover, mainly because of the delay of some tenders for energy consumption measuring devices and railway safety equipment.

12.3. Cash-Flow

	<u>Year 2017</u>	<u>Year 2016</u>
Net cash used in operating activities	1,453,029	5,775,858
Net cash used in investments	(2,899,580)	(1,804,959)
Net cash used in financing activities	(13,682)	(39,098)
Net (increase/decrease of) cash and cash equivalents	(1,460,233)	3,931,802
Cash and cash equivalents at the beginning of the period	17,822,290	13,890,488
Cash and cash equivalents at the end of the period	16,362,057	17,822,290

- At the end of the period, the cash registered a slight decrease of 8 % as compared to the beginning of the reporting period. The lower cash level can be explained by the investment made.
- The level of investment was 60 % higher than in 2016. The investment in technological equipments represented the largest share within the total investment.
- Credit lines were used to a smaller extent than in the previous year, but they had no influence on the net cash because they were used on a short term and fully reimbursed.

13. Important events occurred after the closing of the financial year

The impact of the regularization of the final number of green certificates for the electricity supply business in 2017 was not reflected in the financial statements because of the late publication of ANRE Order no. 38/28.02.2018. We believe that the regulation will not influence the Company's profit.

It should be noted that the fine of 10,024,824 lei imposed by the Competition Council, on which the Company was informed at the beginning of January, was reflected in the annual financial statements as of 31 December 2017.

At the time this report was prepared, the management of the company was not aware of any events, economic changes or other factors of uncertainty that could significantly affect the Company revenues or liquidities, other than those mentioned herein.

14. Statement of corporate governance

14.1 The relevant corporate governance code

The Company management considers that a high level of transparency as well as a good protection of investors are essential for its long-term support by its shareholders development in the long run and maximize the value of the shares.

The strict application of the relevant legislation (Law no. 31/1990 on trading companies, republished; Law no. 297/2004 on capital market, as further amended and supplemented; Law no. 24/2017 on issuers of financial instruments and market operations; Regulation no. 6/2009 on shareholders' rights; Regulation no. 1/2006 on issuers) as well as of the company's Articles of incorporation is a pre-requisite for compliance with the corporate governance requirements established at world level.

The Board of Directors decided to voluntarily apply the BVB Corporate Governance Code, except that, according to the specificity of the Company, some of the provisions thereof will be only partially. The current stage of compliance with the BVB Corporate Governance Code, the reasons for partial compliance and the measures adopted to achieve the corporate governance goals are specified in the Annex to the Statement of Corporate Governance, published with this report.

14.2. General meetings of shareholders and rights of shareholders

The rights of the shareholders and the procedure for participation in the general meetings of shareholders are described in the notice convening the general meeting and were summarized in a regulation available in the Corporate Governance section of the Company's website www.electromagnetica.ro/companie/info.

14.3. Management system

The company is currently managed under the one-tier system, by a Board of Directors. Following the Resolution adopted on 14 September 2017 by Decision of the Extraordinary General Meeting of Shareholders, the number of BoD members was reduced from 9 to 7. This system meets the current management needs and it is not necessary to implement a two-tier system.

14.4. Corporate governance structures

The main administration, management and supervisory structures of the Company are the Board of Directors, the Managers, the External Auditor and the Internal Auditor. The professional qualification and management experience of the members of the Board enables them to assess on a regular basis the aspects related to the review of the managers' activity, appointment and remuneration or internal audit. In 2017, no advisory committees, such as audit, remuneration or nomination committees, were established because not all the legal requirements for most of the members or leaders of such committees to be independent directors were met.

In order to ensure compliance with the Audit Law no. 162/2017 and EU Regulation no. 537/2014 regarding the audit, the Board of Directors decided in its meeting of 7 March 2018 to establish an Audit Committee composed of 3 members. Two of the non-executive directors were nominated to be members of the Audit Committee (Mrs Elena Calitoiu and Mrs Cristina Hodea), while the third member is to be nominated by the following Ordinary General Meeting of Shareholders, so that all the legal requirements of competence and independence would be met.

14.4.1. Board of Directors and managers

The members of the Board of Directors were elected by majority vote in the ordinary meeting of shareholders on 25 September 2015, the candidates being proposed by the shareholders. The composition of the Board of Directors reflects faithfully the holdings in capital (more than 70% of the capital is represented in the BoD). No director stood as a candidate as an independent person. There are no family relationship between the directors or members of the executive management and third parties based on which they were elected or appointed. At the time of its appointment, the Board of Directors was composed of 9 members elected for a 4-year term of office. After the death of Mr Vlad Florea, the Board of Directors appointed Mr. Balmus Dumitru (commercial manager) as interim director, starting from 28 July 2017 until the next general meeting. Given the resignation (effective on 1 September 2017) of Bucur Vasilica, one of the directors, the Board called the Extraordinary General Meeting of Shareholders for 14 September 2017 when the meeting decided to reduce the number of BoD members from 9 to 7. By resolution of the Extraordinary General Meeting of Shareholders, the 7 directors in office at that time would continue their mandates until expiry (until 18 October 2019).

	Name	Position	Term of office	Age, profession, place of work	Individual ELMA share ownership	Positions held in other listed companies
1	Scheusan Eugen	BoD Chairman	18 Oct 2019	64, engineer, Electromagnetica SA	0.2428%	-
2	Stancu Traian	BoD Member	18 Oct 2015 – 18 Oct 2019	65, engineer, Electromagnetica SA	0.0462%	-
3	Stancu Ioan	BoD Member	18 Oct 2015 – 18 Oct 2019	68, technician, Electromagnetica SA	0.0027%	-
4	Macovei Octavian	BoD Member	18 Oct 2015 – 18 Oct 2019	68, engineer, Electromagnetica SA	0%	-
5	Calitoiu Elena	BoD Member	18 Oct 2015 – 18 Oct 2019	55, engineer, SIF Oltenia	0%	SIF Oltenia – head of Directorate for Placements, Transactions and Net Asset Value Calculation; Antibiotice Iasi - director
6	Sichigea Elena	BoD Member	18 Oct 2015 – 18 Oct 2019	63, economist, SIF Oltenia	0%	Sif Oltenia – head of business department; Mercur SA Craiova - director
7	Hodea Cristina Ioana Rodica	BoD Member	15 Mar 2016 – 18 Oct 2019	54 ,CFA, MBA, engineer, auditor "Maine va fi mai Bine" Foundation	0%	-
8	Vlad Florea	BoD Member	18 Oct 2015 – 18 Oct 2019	69, economist, Electromagnetica SA	1.1640%	-
9	Bucur Vasilica	BoD Member	18 Oct 2015 – 18 Oct 2019	60, legal professional, SIF Oltenia	0%	Sif Oltenia – head of legal department
10	Balmus Dumitru	BoD Member	28 Jul 2017 - 15 Sep 2017	69, economist, Electromagnetica SA	0.0001%	

The diversity of the members of the Board enables the efficient use of supplementary skills and professional experience and knowledge in various fields. Most of the members of the Board are non-executive managers, which ensure the proper balance of authority. In 2017, the Board of Directors met every month in the presence of all the Board members, whether in person or by representative. The level of the compensation for the Board members is established by decision of the general meeting of shareholders.

14.4.2. Managers

According to the provisions of the Company's Articles of Incorporation, the Chairman of the Board of Directors also exercises the function of Managing Director and duly represents the Company. The Board of Directors can delegate certain powers to one or more managers, based on mandate agreements, and establish the tasks of each manager who is subject to such delegation. In 2017, the executive management was carried out by 5 managers, as follows:

No.	Surname/ Name	Capacity	Individual share ownership as of 31 Dec 2017	Other positions held in listed companies
1	Scheusan Eugen	Managing Director	0.2428%	-
2	Frasineanu Ilie	Chief Financial Officer	0.0486%	-
3	Stancu Traian	Production Manager	0.0462%	-
4	Macovei Octavian	Technical Manager	0%	-
5	Balmus Dumitru	Commercial Manager	0.0001%	-

Mr. Frasinianu Ilie and Balmus Dumitru terminated their mandates upon request, starting from 31 December 2017. The Board of Directors held a meeting on 20.12.2017 and decided to appoint Mrs. Cristina Florea as Chief Financial Officer and Mr. Mihail Stoica as Commercial Manager, for a term of office which would start on 01 January 2018 and be valid until revocation.

Mrs. Cristina Florea, aged 44, is a graduate of the Faculty of Finance and Accounting, Academy of Economic Studies in Bucharest. Before appointment, she was the head of the Financial-Accounting Department.

Mr. Mihail Stoica, aged 44, is a graduate of the Manufacturing Engineering Faculty within the Polytechnic University of Bucharest. Before appointment, he was the head of the Department for Sales, Contracting, Ordering, Finished-Product Management.

The remunerations of the managers are established by decision of the Board of Directors. The gross annual remuneration and other benefits, including the remuneration approved for the management by the general shareholders' meeting, which is part of the revenue and expenditure, cannot exceed 5% of the value of the equity determined in the annual balance sheet.

14.4.3. Independent External Auditor

Based on the power of attorney granted by the general meeting of Electromagnetica shareholders under article 9 of its decision dated 21.04.2016, the Board of Directors met on 31.05.2016 decided to sign with Deloitte Audit SRL an agreement for auditing the individual and consolidated financial statements for the financial years ended on 31 December 2016 and, respectively, 31 December 2017.

The audit company is represented by Mr. Farrukh Khan, as partner and director, while the audit mission is run by Mr. Zeno Caprariu, as audit manager.

The identification data of Deloitte Audit SRL are the following:

Tax ID: 7756924

Trade Register no.: 40/6775/1995

License issued by the Chamber of Financial Auditors of Romania: no. 25/25.06.2001

Company head office: 4-8 Nicolae Titulescu Street, 2nd floor, Deloitte area and 3rd floor, district 1, Bucharest

Tel 021/222.16.61

Fax 021/319.51.00

14.4.4. Internal audit

The Board of Directors works closely with the internal auditor and the financial control service on issues relating to financial reporting, internal audit and risk management. The managerial experience and professional training of the BoD members allows them to evaluate the effectiveness of the internal audit system. The Audit Committee will assist BoD in fulfilling these duties. The Audit Committee will begin to operate as soon as its composition is completed by an independent member, by resolution of the Ordinary General Meeting of Shareholders.

The company has in place an internal control/management review system designed and implemented to enable the executive management and the Board of Directors to provide reasonable assurance that the company funds allocated to the achievement of general and specific objectives were used lawfully, regularly, efficiently, effectively and economically.

The internal control / management review system comprises both self-control and subsequent control mechanisms applied by the Budgetary Surveillance and Execution Office and the Internal Control and Audit Department; the implementation of the measures aimed at increasing its efficiency is also based on the assessment of risks.

The accounting and financial internal review is a basic component of internal control. The company applied the internal accounting and financial review to ensure the accounting management and the surveillance of the Company activity from the financial perspective.

The internal audit activity was focused on:

- ensuring compliance with applicable legislation;
- implementing the decisions made by company management;
- the smooth conduct of the company internal activity;
- the reliability of financial information;
- the efficient use of resources;
- risk prevention and control.

The control activity was carried out according to a schedule approved by the company management. Only insignificant irregularities were found, for which concrete measures were taken.

14.5. Capital structure and major shareholders

The company did not issue shares that grant special controlling rights or other types of rights. During 2017 there were no suspensions of voting rights or restrictions related to the ownership of shares. The members of the executive management are also members of the Electromagnetica Association of Shareholding Employees (PAS); this association is not controlled by a single person.

At the date of 31.12.2017, the Company had 6,034 shareholders. According to the Central Securities Depository, the capital structure as of 31.12.2017 was the following:

Shareholder	Ownership	Number of shares
PAS Electromagnetica	29.6288%	200,302,763
SIF Oltenia SA	25.4006%	171,717,594
Natural persons	28.6638%	194,589,958
Legal entities	16.1867%	109,428,389
TOTAL	100.00%	676,038,704

14.6. Conflicts of interests management, transactions with stakeholders and treatment of confidential information

The directors involved in potential conflicts of interests must inform the Board and abstain from the debates and voting on those matters. Transactions with stakeholders are concluded in fair conditions and are negotiated by the management members who are not related to the stakeholders concerned. The external auditor must signal and analyze accordingly these transactions in the audit report. The company will prepare and update the list of persons that are deemed to have access to insider information. Annually, the directors and managers of the company and the other affiliated parties make solemn declarations that they are not in a situation of conflict of interests and do not carry out any competing activities.

14.7. Own shares repurchase

There is no approved program for the repurchase of share or price stabilization and there is no scheme for the granting of shares to employees or management members. It should be recalled that the extraordinary general meeting of shareholders of 30 April 2015 approved, in principle, the repurchase by the Company of its own shares in order to implement a system for employee remuneration and retention, and later on a new extraordinary general meeting is to be convened to establish the number of shares, the minimum and the maximum price as well as the term of redemptions. This was not possible because of the financial situation of the Company.

14.8. Reporting share transactions by directors and other stakeholders

The company does not apply additional rules, other than those provided for by legislation, to the transactions conducted with the shares of the Company by its directors or other stakeholders. The directors are aware of the legislation on transactions with Company shares. During 2017, pursuant to Article 150 of Regulation no. 1/2006 of the National Securities Commission (CNVM), there were no reported transactions of the company's shares made by the shareholders included in the list of persons having access to inside information.

14.9. Changes of the Articles of Incorporation

The Articles of Incorporation were updated twice. The first change was made on 28.07.2017 and it refers to the change of BoD composition after Vlad Florea's death and the appointment of Mr. Balmus Dumitru as interim director. The second change of the Articles of Incorporation was made on 14 September 2017. The number of directors was changed from 9 to 7 (Article 16.1) based on the resolution adopted by the Extraordinary General Meeting of Shareholders held on 14 September 2017.

14.10. Disclosure of corporate information

Every year, the Company establishes and publishes a financial reporting calendar. The Company regularly and permanently prepares and discloses information that is relevant for investment decisions. The staff dedicated to this activity is trained on a continuous basis, educated and instructed in issues related to the company's relation with its shareholders and the corporate governance principles. In 2017, the information was disclosed in Romanian and in English for those categories of documents envisaged by the applicable legislation. The Company encourages communication with shareholders the *Investors* section on its web page available at http://www.electromagnetica.ro/companie/info.php?ik_comp=4; for further information, investors can either call to 021.404.2132, use the fax no. 021.404.2195 or the e-mail address: juridic@electromagnetica.ro.

**Board of Directors Chairman/Managing Director
Eugen Scheusan**

**Chief Financial Officer
Cristina Florea**

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.1. All companies must have an internal regulation of the Board to include the key terms/responsibilities of the Board and the Company's key management positions and to enact, among others, the General Principles under Section A.		Partially compliant	The Company has not adopted an operating regulation for the BoD, given that the articles of incorporation clearly differentiate the powers and attributions of BoD from those of GMS and those of the managers. The BoD's responsibilities, key positions and means of operation are sufficiently detailed in the articles of incorporation and comply with the general principles of CGC of BVB under section A regarding responsibilities. The results so far indicate that this means of operation is functional.
A.2. Provisions for the management of conflicts of interest must be included in the Board's regulation. In any case, the members of the Board must notify the Board with regard to any conflicts of interest which have occurred or may occur and abstain from attending talks (even by absence, except when the absence prevents the formation of the quorum) and from voting to adopt a resolution on the matter giving rise to the respective conflict of interest.		Partially compliant	The Company has not adopted an operation regulation for BoD that contains provisions for the management of conflicts of interest. However, the Board of Directors takes measures to comply with the applicable legal provisions, and the Company's and subsidiaries' directors and managers regularly give sworn statements regarding non-competition and conflicts of interest. The adopted measures have proven to be effective for managing conflicts of interest.
A.3. The Board of Directors or the Board of Surveillance must be comprised of at least five members.	Compliant		
A.4. The majority of the members of the Board of Directors must not have an executive position. At least one member of the Board of Directors or the Board of Surveillance must be independent, in the case of companies in the Standard Category. In the case of companies in the Premium Category, at least two non-executive members of the Board of Directors or the Board of Surveillance must be independent. Each independent member of the Board of Directors or Board of Surveillance, as the case may be, must file a statement at the time of their nomination for election or re-election, as well as when any		Partially compliant	Of the 7 BoD members, 3 are executive directors and 4 are non-executive, but none of them declared themselves at the beginning of their mandate as being independent directors according to the criteria stated by CGC of BVB under items A.4.1- A.4.9

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
change of status occurs, thereby indicating the elements based on which they consider themselves independent in terms of character and judgment and according to the following criteria:			
A.4.1. he/she is not a Managing Director/executive manager of the Company or of a company under the control thereof and has not held such office in the past five (5) years;			
A.4.2. he/she is not an employee of the Company or of a company under the control thereof and has not held such office in the past five (5) years;			
A.4.3. he/she does not and has not received additional remuneration or other advantages from the Company or a company under the control thereof, other than those pertaining to his/her capacity as non-executive director;			
A.4.4. he/she is not or was not an employee, or does not or did not have over the previous year a contractual relationship with a significant shareholder of the Company, such shareholder controlling more than 10% of the voting rights, or with a company controlled by the latter;			

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.4.5. does not and did not have over the previous year any business or professional relationship with the Company or with a company controlled by it, either directly or as client, partner, shareholder, member of the Board/Director, Managing Director /executive manager or employee of a company if, due to its substantial nature, such relationship may affect his/her objectivity;			
A.4.6. he/she is not and was not over the past three years an external or internal auditor or partner or remunerated associate to the current external financial auditor or to the internal auditor of the Company or of a company controlled by it;			
A.4.7. he/she is not a Managing Director/executive manager of another company where another Managing Director/executive manager of the Company is a non-executive director;			
A.4.8. he/she was not a non-executive director of the Company for a period longer than twelve years;			
A.4.9. he/she does not have family connections to a person who is in the situations mentioned under items A.4.1. and A.4.4.			
A.5. Other relatively permanent professional commitments and obligations of a Board member, including executive and non-executive positions on the Board of not-for-profit companies and institutions must be disclosed to shareholders and potential investors prior to nomination and during their mandate.	Compliant		

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.6. Any member of the Board must present to the Board information on a relationship to a shareholder holding directly or indirectly shares representing more than 5% of all voting rights. This obligation refers to any kind of relationship that may affect the position of the member with regard to matters decided by the Board.	Compliant		
A.7. The Company must appoint a secretary of the Board, in charge of supporting the Board's activity.	Compliant		
A.8. The Statement on Corporate Governance will inform as to whether there has been an evaluation of the Board under the leadership of the Chairman or of the nomination committee and, if appropriate, it will summarize the key measures and changes derived from such evaluation. The Company must have a policy/guide on Board evaluation, containing the purpose, criteria and frequency of the evaluation process.		Partially compliant	The Board of Directors has not adopted a policy/guide on Board evaluation. On an annual basis, within the general balance meeting, the ordinary general meeting of the shareholders is required to decide on granting incentives depending on the achievement of the performance indices and in accordance to the provisions of the articles of incorporation.
A.9. The Statement on Corporate Governance must contain information regarding the number of meetings of the Board and committees throughout the past year, the attendance of directors (personally and in absentia) and a report of the Board and the committees concerning their activities.	Compliant		
A.10. The Statement on Corporate Governance must contain information regarding the exact number of independent members on the Board of Directors or on the Surveillance Board.	Compliant		

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.11. The Board of companies in the Premium Category must establish a nomination committee comprised of non-executive members, which will lead the procedure for nomination of new members on the Board and will make recommendations to the Board. The majority of the members of the nomination committee must be independent.		Partially compliant	A nomination committee composed of non-executive directors who are, as a majority, independent directors, could not be established. The Board of Directors is, as a whole, the one who nominated interim members and makes recommendations to the ordinary general meeting of the shareholders on the election of new BoD members.
B.1. The Board must establish an audit committee in which at least one member must be an independent non-executive director. The majority of the members, including the chairman, must have proven they hold relevant adequate qualification for the attributes and responsibilities of the committee. At least one member of the audit committee must have proven and adequate audit or accounting experience. In the case of companies in the Premium Category, the audit committee must be comprised of at least three members, and the majority of the audit committee members must be independent.		Partially compliant	The Board of Directors decided that an Audit Committee composed of 3 members should be established. Due to the impossibility of ensuring a majority of independent non-executive directors in the committee, the Board decided that the Committee should be supplemented by one independent member nominated by the next General Meeting of the Shareholders. Until the first meeting of the Audit Committee, these duties shall be fulfilled by the Board. Among the Board Members there are persons with adequate experience in auditing or accounting. These are fully capable to ensure the integrity of the financial reporting and of the internal control system.
B.2. The chairman of the audit committee must be an independent non-executive member.	Compliant		
B.3. Within its responsibilities, the audit committee must conduct an annual evaluation of the internal control system.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board.
B.4. The evaluation must take into account the effectiveness and span of the internal audit function, the adequacy of the risk management and internal control reports presented to the Board's audit committee, the timeliness and effectiveness employed by the executive management in solving deficiencies or weaknesses identified pursuant to the internal control and presenting relevant reports to the attention of the Board.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board.

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
B.5. The audit committee must evaluate conflicts of interest regarding the transactions of the Company and its subsidiaries with affiliated parties.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board.
B.6. The audit committee must evaluate the effectiveness of the internal control system and the risk management system. B.7. The audit committee must monitor the enactment of generally accepted legal standards and internal audit standards. The audit committee must receive and evaluate the reports of the internal audit team.		Partially compliant Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board. Until the composition of the Committee is complete, these duties will be fulfilled by the Board.
B.8. Anytime the Code mentions reports or analyses initiated by the Audit Committee, these must be followed by periodical (at least annually) or immediate reports which must be subsequently forwarded to the Board.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board.
B.9. No shareholder may receive preferential treatment compared to other shareholders with regard to transactions and agreements concluded by the Company with the shareholders and their affiliates.	Compliant		
B.10. The Board must adopt a policy by which to ensure that any company transaction with any of the companies with which it has close ties, the value of which is equal to or greater than 5% of the Company's net assets (according to the latest financial report) is approved by the Board following a mandatory opinion of the Board's audit committee, accurately disclosed to shareholders and potential investors, to the extent that such transactions fall into the category of events subject to reporting requirements.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board. The Company it does enact both the legal requirements to report transactions greater than EUR 50,000 concluded with persons closely tied to the Company, and the statutory requirements for rental agreements to be analyzed and approved by the BoD. It is not necessary to have a distinct policy for disclosure of the above-mentioned transactions because the legal EUR 50,000 threshold is stricter than the CGC criterion of 5% of the Company's net assets.
B.11. Internal audits must be conducted by a structurally separate division (the internal audit department) within the Company by hiring an independent third party.	Compliant		

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
<p>B.12. In order to ensure the fulfillment of the main functions of the internal audit department, it must functionally report to the Board by means of the audit committee. For administrative purposes and within the management's obligations to monitor and decrease risks, it must report directly to the Managing Director.</p>	<p>Compliant</p>		

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
<p>C.1. The Company must publish on its website the remuneration policy and include in the annual report a statement on the implementation of the remuneration policy during the annual period subject to analysis. The remuneration policy must be expressed so that it allows the shareholders to understand the principles and arguments underlying the remuneration of the members of the Board and of the Managing Director, as well as the Management members in the dual system. It must describe the method of leading the process and of making decisions regarding remuneration, detail the elements of the remuneration of the executive management (such as salaries, annual bonuses, long-term incentives related to the value of shares, benefits in kind, pensions and others) and describe the purpose, principles and presumptions underlying each element (including the general performance criteria related to any form of variable remuneration). Moreover, the remuneration policy must indicate the duration of the executive manager's contract and the notice period mentioned in the contract, as well as the potential compensation for wrongful dismissal. The report regarding remuneration must present the implementation of the remuneration policy for persons identified in the remuneration policy during the annual period subject to analysis. Any essential change having occurred in the remuneration policy must be promptly published on the Company's website.</p>		<p>Partially compliant</p>	<p>The Company has not adopted or published on its website a remuneration policy but the notes to the annual financial statements contain information on the remuneration of directors and managers for the analyzed period. The Company's articles of incorporation provides for general limits for profit participation on the part of employees and directors, or directors and managers, taking into consideration the achieved profit criterion, that is, depending on exceeding the budgeted profit.</p>

<p>D.1. The Company must organize an Investor Relations service – thereby indicating to the public the person/persons in charge or the organizational unit. Aside from the information required by legal provisions, the Company must include on its website a section dedicated to Investor Relations, in Romanian and English, containing all relevant information that may be of interest to investors, including:</p> <p>D.1.1. Main corporate regulations: articles of incorporation, procedures concerning general meetings of shareholders;</p> <p>D.1.2. Professional resumes of the members of the Company’s management bodies, other professional commitments of the Board members, including executive and non-executive positions in boards of directors in companies or not-for-profit institutions;</p> <p>D.1.3. Current reports and periodical (quarterly, semester and annual) reports – at least those set forth under item D.8 – including current reports containing detailed information regarding non-compliance with this Code;</p> <p>D.1.4. Information regarding general meetings of shareholders: agenda and information materials; procedure for election of Board members; arguments backing candidate proposals for Board election, along with their professional resumes; shareholders’ questions with regard to items on the agenda and company’s answers, including resolutions adopted;</p> <p>D.1.5. Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading up to the acquirement or limitation of a shareholder’s rights, including deadlines and principles applied to such operations. The respective information will be published soon enough so as to allow investors to make investment decisions;</p> <p>D.1.6. The name and contact details of a person who is able to provide relevant information upon request;</p> <p>D.1.7. Company’s presentations (for instance, presentations for investors, presentations on quarterly results, etc.), financial</p>	<p>Compliant</p>		
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Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
statements (quarterly, semester, annual), audit reports and annual reports.			
D.2. The Company will have a policy on the annual distribution of dividends or other benefits to the shareholders, proposed by the Managing Director or by the Management and adopted by the Board, in the form of a set of guidelines which the Company intends to follow with regard to net profit distribution. The principles of the annual policy of distribution to shareholders will be published on the Company's website.		Partially compliant	The Company has not adopted and has not published on its own website a policy on the annual distribution of dividends. However, through the resolutions adopted in recent years, the Company has proven consistency and predictability in the allotment of dividends when the Company's profit allowed for it.
D.3. The Company will adopt a policy on forecasts, regardless of whether they are made public or not. The forecasts refer to quantified conclusions of surveys aiming at establishing the global impact of a number of factors concerning a future period (the so-called hypotheses): by its nature, this projection is highly uncertain, and the actual results may differ significantly from the initially presented forecasts. The policy on forecasts will establish the frequency, the envisioned period and the content of the forecasts. If published, the forecasts may be included only in the annual, semester or quarterly reports. The policy on forecasts will be published on the Company's website.		Partially compliant	The Company has not adopted a policy on forecasts to establish the frequency, period and content thereof, whether to be made public or not. Forecasts with a certain level of uncertainty are included each time in the annual reports of directors.
D.4. The rules of the general meetings of shareholders must not limit the shareholders' participation in the general meetings and the exercise of their rights. Amendments to the rules will come into force, at the earliest, starting from the following meeting of shareholders.	Compliant		
D.5. The external auditors will be present in the general meeting of shareholders when their reports are presented within such meetings.	Compliant		

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
D.6. The Board will present to the annual general meeting of shareholder a short assessment of the internal control systems and significant risk management systems, as well as opinions on certain matters subject to the decision of the general meeting.	Compliant		
D.7. Any financial specialist, consultant, expert or analyst may attend the meeting of the shareholders based on a prior invitation by the Board. Accredited journalists may also attend the general meeting of shareholders, unless the Chairman of the Board decides otherwise.		Non-compliant	The Company's bylaws do not provide for the participation in the GMS, as invited parties, of analysts, accredited journalists, experts, consultants, specialists. On a regular basis, aside from shareholders, the GMS is attended by directors, managers, auditors and other guests only when their presence is justified by the agendas containing reports or analyses drawn up by them.
D.8. The quarterly and semester financial reports will include information both in Romanian and in English with regard to the key factors influencing changes in the level of sales, operational profit, net profit and other relevant financial indices, both from one quarter to another, and from one year to another.		Partially compliant	The requirements are met, noting that the information are presented only compared to the similar period of the previous year, not from one quarter to another.
D.9. A company will organize at least two meetings/teleconferences with the analysis and investors every year. The information presented on such occasions will be published under the section "investor relations" on the Company's website on the date of the meetings/teleconferences.	Compliant		
D.10. If a company supports various forms of artistic and cultural expression, sporting activities, educational or scientific activities and considers that the impact thereof on the Company's innovative nature and competitiveness are part of its development mission and strategy, it will publish the policy on its activity in such area.		Partially compliant	The Company has not adopted and has not published a policy on supporting forms of artistic and cultural expression, sporting activities, educational or scientific activities. However, the numerous actions carried out in the past for supporting the above-mentioned areas were accompanied by press releases and promoted on the Company's website.

Declaration of the responsible persons

In accordance with the provisions of Article 65 of Law no. 24/2017 on issuers of financial instruments and market operations, we, the undersigned Eugen Scheusan – Managing Director and Cristina Florea – CFO , in our capacity of legal representative of the company Electromagnetica SA with its head office at 266-268 Calea Rahovei Street, District 5, Bucharest, registered with the Trade Register under no. J40/19/1991, tax identification number 414118, hereby declare that we take the responsibility for both the individual and consolidated financial statements for 2017, which have been prepared in accordance with the applicable accounting standards, and we certify that, to the best of our knowledge:

- a) The financial statement as of 31.12.2017, prepared in compliance with Order no. 2844/2016 of the Ministry of Public Finance approving the accounting regulations compliant with the international financial reporting standards, reflects a true and fair image of the assets, liabilities, financial position, profit and loss account of Electromagnetica SA and the companies included in the consolidation process;
- b) The annual report of the directors for 2017 was prepared in compliance with the provisions of CNVM Regulation no. 1/2006 and present true and the report includes a correct analysis of the development and performance of the company, as well as a description of the main risks and uncertainties specific to the activity carried out.

Managing Director

Eugen Scheusan

CFO

Cristina Florea

ELECTROMAGNETICA S.A.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Prepared in accordance with
Ministry of Public Finance Order no. 2844/2016 approving the Accounting Regulations
compliant with International Financial Reporting Standards as adopted by the European Union**

(Together with Independent Auditor's Report and Administrator's Report)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders,
Electromagnetica S.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

1. We have audited the consolidated financial statements of Electromagnetica S.A. and its subsidiaries (the "Group"), with registered office in Bucharest Sector 5, 266-268 Rahova blvd, identified by the unique tax registration code 414118, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and notes to the consolidated financial statements.
2. The consolidated financial statements as at December 31, 2017 are identified as follows:
 - Net assets/ Equity RON 325,552,631
 - Loss for the financial year RON 14,449,482
3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the provisions of the Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law")(if PIE). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters to be communicated in our report.

Other information- Administrator's Report

6. Management is responsible for preparation and presentation of the other information. The other information comprises the Administrator's report which does not include the consolidated financial statements and our auditors report thereon, nor the non-financial information declaration being is presented in a separate report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements for the year ended December, 31, 2017, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Administrator's report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

On the sole basis of the procedures performed within the audit of the consolidated financial statements, in our opinion:

- c) the information included in the administrators' report for the financial year for which the financial statements have been prepared are consistent, in all material respects, with these financial statements;
- d) the administrators' report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the consolidated financial statements prepared as at December 31, 2017, we are required to report if we have identified a material misstatement of this Administrator's report . We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

7. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the provisions of the Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
8. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
9. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

10. Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

15. We have been appointed by the General Assembly of Shareholders on April 21, 2016 to audit the consolidated financial statements of Electromagnetica S.A. and its subsidiaries for the financial year ended December 31, 2017. The uninterrupted total duration of our commitment is 2 years, covering the financial years ended December 31, 2016 and December 31, 2017.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014.

The engagement partner on the audit resulting in this independent auditor's report is Zeno Caprariu.

Zeno Caprariu, Audit Director

*Registered with the Chamber of Financial Auditors of Romania
under certificate no. 2693/ 18.11.2008*

On behalf of:

DELOITTE AUDIT S.R.L.

*Registered with the Chamber of Financial Auditors of Romania
under certificate no. 25/25.06.2001*

4-8 Nicolae Titulescu Blvd, America House, East Wing
2nd Floor – Deloitte area and 3rd Floor, sector 1,
Bucharest, Romania
March 20, 2018

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

	Nota	12-month period ended December 31, 2017	12-month period ended December 31, 2016
Revenues	19	<u>223,246,080</u>	<u>236,253,958</u>
Investment income	19	973,361	5,545,363
Other net income	19	(9,811,506)	4,890,167
Changes in inventories of finished goods and work in progress	19	13,407,878	15,924,804
Own work capitalized	19	1,617,287	1,246,195
Raw materials and consumables used	20	(166,496,995)	(170,169,019)
Employee-related expenses	20	(36,406,993)	(36,459,838)
Expenses related to depreciation and impairment	20	(11,501,335)	(16,930,717)
Other expenses	20	(28,353,511)	(32,255,671)
Financial expenses	21	(686,087)	(654,692)
(Loss)/Profit before tax		<u>(14,011,821)</u>	<u>7,390,550</u>
Income tax	22	437,661	(1,010,554)
(Loss)/Profit of the period		<u>(14,449,482)</u>	<u>6,379,995</u>
Distributable to the parent		(14,489,410)	6,298,733
Distributable to non-controlling interests		39,928	81,262
Other comprehensive income			
of which:			
other comprehensive income that cannot be reclassified to profit or loss, of which:			
- revaluation surplus for tangible assets		-	81,594,328
- deferred tax recognized in equity	22	962,857	(13,698,750)
Comprehensive income for the period		<u>(13,486,625)</u>	<u>74,275,573</u>

These consolidated financial statements were approved for issuance by the management as at March 20, 2018.

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
ASSETS			
Non-current assets			
Property, plant and equipment	4	291,512,341	298,078,444
Investment property	5	8,642,116	7,664,546
Intangible assets	6	1,248,800	1,637,684
Other non-current assets	7	19,802,564	17,038,631
Total non-current assets		<u>321,205,820</u>	<u>324,419,304</u>
Current assets			
Inventories	8	17,423,142	18,029,921
Trade receivables	9	40,770,090	34,516,350
Cash and cash equivalents	12	20,570,751	21,521,428
Other current assets	10	2,418,041	3,165,527
Current tax assets	22	-	-
Total current assets		<u>81,182,023</u>	<u>77,233,226</u>
Total assets		<u>402,387,844</u>	<u>401,652,531</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	13	67,603,870	67,603,870
Reserves and other equity	14	183,473,373	181,225,908
Retained earnings	15	74,220,398	90,053,565
Total equity attributable to parent's shareholders		<u>325,297,642</u>	<u>338,883,343</u>
Non-controlling interests		<u>254,989</u>	<u>215,061</u>
Total equity		<u>325,552,631</u>	<u>339,098,404</u>
Non-current liabilities			
Trade payables and other liabilities	18	1,304,836	2,784,610
Investment subsidies	16	4,736,743	4,899,962
Deferred tax liabilities	22	16,614,478	17,785,656
Total non-current liabilities		<u>22,656,057</u>	<u>25,470,228</u>
Current liabilities			
Trade payables and other liabilities	18	39,747,711	34,811,611
Investment subsidies	16	163,219	163,219
Provisions	17	13,744,272	1,833,135
Current income tax liabilities	22	523,952	275,933
Total current liabilities		<u>54,179,155</u>	<u>37,083,898</u>
Total liabilities		<u>76,835,212</u>	<u>62,554,126</u>
Total equity and liabilities		<u>402,387,844</u>	<u>401,652,531</u>

These consolidated financial statements were approved for issuance by the management as at March 20, 2018.

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

The accompanying notes form an integral part of these consolidated financial statements.

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	12-month period ended December 31, 2017	12-month period ended December 31, 2016
Cash flows from operating activities:			
Cash receipts from customers		239,588,973	270,415,479
Payments to suppliers		(181,382,632)	(204,055,209)
Payments to employees		(35,758,376)	(35,254,088)
Other operating activities		(19,625,974)	(24,184,527)
Cash used in operating activities		<u>2,821,992</u>	<u>6,921,656</u>
Interest paid		(28,486)	(72,757)
Income tax paid		(417,536)	(98,535)
Net cash generated by/ (used in) operating activities		<u>2,375,970</u>	<u>6,750,364</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3,360,865)	(2,263,613)
Proceeds from sale of non-current-assets		22,554	33,155
Interest received		25,346	30,684
Dividends received		-	-
Net cash used in investing activities		<u>(3,312,964)</u>	<u>(2,199,774)</u>
Cash flows from financing activities			
Proceeds from loans		44,169,727	68,918,650
Cash repayments of amounts borrowed		(44,169,727)	(68,918,650)
Dividends paid		(13,682)	(39,098)
Net cash used in financing activities		<u>(13,682)</u>	<u>(39,098)</u>
Net decrease/increase of cash and cash equivalents		<u>(950,677)</u>	<u>4,511,492</u>
Cash and cash equivalents at beginning of period	12	<u>21,521,428</u>	<u>17,009,936</u>
Cash and cash equivalents at end of period	12	<u>20,570,751</u>	<u>21,521,428</u>

These consolidated financial statements were approved for issuance by the management as at March 20, 2018.

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Tangible assets revaluation reserve</u>	<u>Other reserves</u>	<u>Legal reserve</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
Balance as at January 1, 2017	67,603,870	90,053,566	88,968,568	57,834,598	34,422,742	215,061	339,098,405
Profit or loss of the period							
Profit or loss of the period	-	(14,489,410)	-	-	-	39,928	(14,449,482)
Other comprehensive income							
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets	-	3,097,291	(3,097,291)	-	-	-	-
Deferred tax recognized to reserves	-	-	962,857	-	-	-	962,857
Transfer of the retained earnings to reserves	-	(4,373,118)	-	4,373,118	-	-	-
Total comprehensive income for the period	-	(15,765,237)	(2,134,434)	4,373,118	-	39,928	(13,486,625)
Transactions with shareholders, directly registered to equity							
Other items	-	(67,931)	8,992	-	(211)	-	(59,150)
Balance as at December 31, 2017	67,603,870	74,220,398	86,843,127	62,207,716	34,422,531	254,989	325,552,631

These consolidated financial statements were approved for issuance by the management as at March 20, 2018.

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

The accompanying notes form an integral part of these consolidated financial statements.

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Tangible assets revaluation reserve</u>	<u>Other reserves</u>	<u>Legal reserve</u>	<u>Non- controlling interests</u>	<u>Total equity</u>
Balance as at January 1, 2016 (restated)	67,603,870	60,597,289	21,250,447	58,089,051	56,866,046	146,750	264,553,453
Comprehensive income for the period							
Profit or loss of the period	-	6,298,733	-	-	-	81,262	6,379,995
Other comprehensive income							
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets	-	449,478	(449,478)	-	-	-	-
Revaluation of tangible assets	-	-	81,594,328	-	-	-	81,594,328
Deferred tax recognized to reserves	-	-	(13,698,750)	-	-	-	(13,698,750)
Total comprehensive income for the period	-	6,748,211	67,446,100	-	-	81,262	74,275,573
Transactions with shareholders, directly registered to equity							
Setup of legal reserve	-	-	-	(273,331)	273,331	-	-
Transfer of the retained earnings to reserves	-	22,716,628	-	18,878	(22,716,628)	-	18,878
Dividends allocated to shareholders	-	-	-	-	-	-	-
Other items	-	(8,563)	56,960	-	(7)	(12,951)	35,439
Balance as at December 31, 2016	67,603,870	90,053,566	88,968,568	57,834,598	34,422,742	215,061	338,098,405

These consolidated financial statements were approved for issuance by the management as at March 20, 2018.

Eugen Scheuşan

Managing Director

Cristina Florea

Economic Manager

The accompanying notes form an integral part of these consolidated financial statements.

ELECTROMAGNETICA S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

4. GENERAL INFORMATION ON THE GROUP

Electromagnetica SA – parent company – is a Romanian legal entity incorporated under the legal form of joint-stock company for an unlimited duration, organised and operating under its articles of incorporation, Law no, 31/1991 republished in 2004 and amended by Law no, 441/2006, Government Emergency Ordinance (GEO) no, 82/2007 and GEO no, 52/2008, and Law no, 297/2004 on the capital market, The registered office of the company is in Bucharest, Calea Rahovei no, 266-268, sector 5, Bucharest, Romania, postal code 64021, telephone 021,404,21,31, 021,404,21,02, fax 021,404,21,95, website www.electromagnetica.ro, Tax ID Code RO 414118, registration number with the Trade Register J40/19/1991, The company share capital is RON 67,603,870,40 divided into 676,038,704 ordinary shares, registered and dematerialised, recorded in electronic account in the shareholder register held by Depozitarul Central SA, According to the company's articles of incorporation, its main object of activity is the manufacture of instruments and appliances for measuring, testing and navigation (NACE code 2651).

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

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

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

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

SC Procetel SA is a joint-stock company with registered office in Bucharest, Calea Rahovei 266-268, registration number with the Trade Register J40/10437/1991, Tax ID 406212, tel,: 031,700,26,14, fax: 031,700,26,16, SC Procetel SA is an unlisted joint-stock company (its shares are not traded on the stock exchange) and its main object of activity is other research and experimental development on natural sciences and engineering (NACE code 7219), Currently, its research activity is significantly diminished and its results mainly derive from its real estate renting activities.

Statement of interest in subsidiaries

	Share capital total		Of which: parent company		
	Value	No, of securities	Value	No, of securities	Ownership and voting right percentage
Procetel	110,005	44,002	732,008*)	42,483	96,548
Electromagnetica Goldstar	295,080	2,650	3,126,197*)	2,650	100
Electromagnetica Prestserv	30,000	300	29,500	295	98,333
Electromagnetica Fire	80,000	800	79,782	799	99,875

*) *Negotiated purchase value*

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

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1. GENERAL INFORMATION ON THE GROUP (continued)

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

a) Electromagnetica Goldstar SRL

Administrative management: Antoaneta Monica Stanila – Sole Director, under a 4 year mandate valid until 1 August 2021

Executive management: Viorel Stroică – Executive Director

b) Electromagnetica Fire SRL

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

Executive management: Maria Rogoz – Managing Director

c) Electromagnetica Prestserv SRL

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

Executive management: Gheorghe Ciobanu – Managing Director

d) Procetel SA

Administrative management: The company is managed by a single administrator. Until the death of Mr. Vlad Florea on July 14, 2017, he served as the sole administrator. At present, the majority shareholder has initiated the necessary steps to convene a general meeting in order to appoint a new administrator.

Executive management: Mihai Sanda – Accounting Officer

2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the Company’s financial statements,

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 “Financial Instruments”** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective date of IFRS 15” - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU:

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019).
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application.

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2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

More details about individual standards, amendments to existing standards and interpretations that can be used as appropriate:

- **IFRS 9 "Financial Instruments"** issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement, IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement - IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held, This single, principle-based approach replaces existing rule-based requirements under IAS 39, The new model also results in a single impairment model being applied to all financial instruments.

Impairment - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses, Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity, The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

Own credit - IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

- **IFRS 14 "Regulatory Deferral Accounts"** issued by IASB on 30 January 2014, This standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS.
- **IFRS 15 "Revenue from Contracts with Customers"** issued by IASB on 28 May 2014 (on 11 September 2015 IASB deferred effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 IASB made clarifications to this standard), IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

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2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- **IFRS 16 "Leases"** issued by IASB on 13 January 2016, Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability, The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly, The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined, If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate, As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature, A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, Otherwise a lease is classified as an operating lease, For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment, A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.
- **Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions** issued by IASB on 20 June 2016, The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
- **Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** issued by IASB on 12 September 2016, The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the Board is developing for IFRS 4.
- **Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation** issued by IASB on 12 October 2017, The amendments modifies the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments, Under the amendments, the sign of the prepayment amount is not relevant, i, e, depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment, The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of a early repayment gain.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** issued by IASB on 11 September 2014 (on 17 December 2015 IASB deferred indefinitely effective date).

The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative issued by IASB on 29 January 2016, The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities, The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- **Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses** issued by IASB on 19 January 2016, The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value.

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2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- **Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures** issued by IASB on 12 October 2017, Amendments were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied, Amendments also delete paragraph 41 because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property issued by IASB on 8 December 2016, The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use, A change of use occurs if property meets, or ceases to meet, the definition of investment property, A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use, Amendments also state that the list of evidence in paragraph 57 was designated as non-exhaustive list of examples instead of the previous exhaustive list.
- **Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** issued by IASB on 8 December 2016, Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording, Changes include: (i) deletion of the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose, (ii) clarification of the scope of the IFRS 12 by specifying that the disclosure requirements in IFRS 12, except for those in paragraphs B10–B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, (iii) clarification of the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)”** issued by IASB on 12 December 2017, Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording, The amendments clarify that: a company remeasures its previously held interest in a joint operation when it obtains control of the business (IFRS 3); a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business (IFRS 11); a company accounts for all income tax consequences of dividend payments in the same way (IAS 12); and a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale (IAS 23).
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** issued by IASB on 8 December 2016, Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability, If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** issued by IASB on 7 June 2017, It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company’s tax treatment, IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty, IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

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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 reporting date, i.e, December 31, 2017, and in compliance with Order of the Minister of Public Finance no, 2844/2016 approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to the 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 adopted by the European Union.

Functional and presentation currency

These consolidated financial statements are presented in RON, the functional currency of the Company.

Basis of preparation

The consolidated financial statements were prepared at 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.

Property, plant and equipment are presented at revaluation amount (IAS 16) and investment property are presented at fair value (IAS 40).

For obsolete or slow moving inventories, adjustments are made based on the management's estimates, The set up and reversal of allowances for inventories impairment is made usually at the end of the quarter in the profit and loss account: for obsolete inventories at 50% of the total value and for slow moving inventories at 25%.

In its first financial statements prepared in compliance with IFRS the Company applied IAS 29 – Financial Reporting in Hyperinflationary Economies and adjusted the historical cost of share capital, legal reserves and other reserves set up from the net profit by the effect of inflation until December 31, 2003, These adjustments were recorded in reserve accounts.

The consolidated financial statements include the separate financial statements of SC Electromagnetica SA (the parent company) and its subsidiaries ("the Group") as at December 31, 2017, prepared based on uniform accounting and measurement principles. The financial statements of the subsidiaries are prepared at December 31, 2017, the same reporting date as for the parent company.

Consolidation of subsidiaries

The assets and liabilities of the subsidiaries are stated at fair value on the date of acquisition. If the interest of the Group in the net fair value of the assets, liabilities and contingent liabilities identifiable and recognised exceeds the cost related to the business combination, the surplus is recognised in the profit and loss account. Non-controlling interests, which entitle the holders to a proportionate share of the net asset in case of the company liquidation, can be initially measured either at fair value or at a value that reflects the share of the minority in the fair value of the identifiable and recognised net assets. The recognition method is selected for each transaction separately. The goodwill is recognised as an asset and is assessed for impairment at least annually. The loss from goodwill impairment is immediately recognised in the profit or loss for the period and is not carried forward in the next periods. The non-controlling interest is the share of the profit or loss and net assets of a subsidiary that is not owned by the parent company and is presented in the consolidated statement of comprehensive income and in the equity presented in the consolidated statement of financial position, separately from the equity of the parent's shareholders.

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency

The operations expressed in foreign currency are recorded in RON, 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 RON, 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 semester are recognized in the profit or loss for the period, The non-monetary assets and liabilities measured at historical cost in foreign currency are recorded in RON, at the exchange rate of the transaction date, The non-monetary assets and liabilities denominated in foreign currency and measured at fair value are recorded in RON, 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 as at December 31, 2017	Exchange rate as at December 31, 2016
EUR	4,6597	4,5411
USD	3,8915	4,3033

Use of estimates and professional judgement

The preparation of the financial statements in compliance with the IFRS adopted by the European Union requires the use by the management of estimates and assumptions that affect the application of the accounting policies and the reported value of assets, liabilities, revenues and expenses, The estimates and judgements related thereto are based on historical data and other factors deemed relevant in the given circumstances and the result of these factors represents the basis for the judgements used in determining the carrying amount of assets and liabilities for which there are no other evaluation sources available, The actual results may differ from the estimated values.

Estimates and judgements are periodically reviewed, The reviews of accounting estimates are recognized 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 recognized as revenue or expense in the current period, The effect on the future periods, if any, is recognized as revenue or expense in the corresponding future periods.

The Company's management considers that the possible differences in relation to these estimates will not affect significantly the financial statements in the near future, for each estimation the principle of prudence is applied.

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, the intangible assets are analyzed to identify indication 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 recognized 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 recognized.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and professional judgement (continued)

The evaluation of the impairment loss on receivables is individual and relies on the best estimate of the management regarding the present value of the cash flows expected to be received, The Company reviews its trade receivables and other receivables on every financial position date in order to assess whether impairment in value should be recorded in the profit and loss account, The professional judgement of the management is required to estimate the value and 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 recognized 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 recognized based on the probability of the period and level of the future taxable profit and the future fiscal planning strategies.

Accounting principles, policies and methods

According to IAS 8 - Accounting policies, changes in accounting estimates and errors, the accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

The 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 2017 and presented in section 2.

Fair value

IFRS 13 - Fair Value Measurement establishes a fair value hierarchy that categorizes on three levels of input data for the evaluation techniques used to assess fair value:

- Level 1 inputs - are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date, This data provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available.
- Level 2 inputs - are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly for the assets and liabilities (for example the quoted prices for identical assets or liabilities on markets that are not active)
- Level 3 inputs - inputs are unobservable inputs for the asset or liability, The Company develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Initial measurement

The Company chose to measure these assets at acquisition 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 initial recognition.

The Company chose to use the straight-line method for the amortization 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 Company 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 recognized immediately in the profit or loss.

For their presentation in the profit and loss account, the gains or losses 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 unamortized 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.

Property, plant and equipment

Initial measurement

Tangible assets are initially recognized at acquisition cost or production cost,

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

The company established a value threshold for the recognition of a tangible asset item.

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 revalued amount, which is 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 buildings is generally market-based, through a valuation made by professional and qualified valuers.

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

The frequency of revaluations depends on the changes in the fair value of revalued 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 accumulated depreciation at the date of the revaluation is removed from the gross carrying amount of the asset and the net amount is restated at the revalued amount of the asset.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Measurement subsequent to initial recognition (continued)

Therefore, the 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 revaluations 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 revised at least at the end of the financial period.

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

The depreciation of an asset ends at the earliest of 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 derecognized, 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.

Land 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.

For all assets acquired starting January 1, 2015 the Company uses the straight-line method as the depreciation method which results in systematic allocation of the depreciable amount of the assets over their useful life.

The residual value, the useful life and the depreciation method are revised 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	<u>Duration (years)</u>
Buildings	20 - 100
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

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

If an asset is revalued, an impairment loss is recognized directly by reducing the revaluation surplus, but the loss should not exceed it.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Impairment policy applied by the company (continued)

The gain or loss resulting from the derecognition of a tangible asset is recognized in profit or loss at the date of the asset derecognition.

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

If items of tangible assets that were held for rental to others are sold repeatedly, these assets are 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 recognized as revenue in accordance with IAS 18 – Revenue.

Maintenance and capital repairs

Capitalized costs for capital repairs are separate components of the corresponding assets or groups of assets, Capitalized costs for capital repairs are amortized using the amortization method used for the underlying asset until the next repair, The expenditure for capital repair works includes the cost of replacing the assets or parts thereof, the costs of inspection and the costs of capital repairs, The expenditure is capitalized if an asset or a part of an asset which was amortized 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 amortized 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 day to day repairs and ordinary maintenance are directly recognized as expenses.

Investment property

Initial measurement

Investment property is initially recognized 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 after recognition

The Company selected the fair value model for the presentation of investment property in its financial statements, Investments properties are not depreciated, gains and losses arising from changes in fair value of investment properties are included in profit or loss in the period in which they arise.

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 and other loans.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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.

According to **IAS 39 - Financial Instruments**, the Company classifies the financial assets held as financial assets at fair value through profit or loss and classifies in this category the 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.

Investments in related parties

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.

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

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

Consolidation procedures used

To consolidate the financial statements, Electromagnetica Group

- a) combines similar items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries
- b) offsets (eliminates) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary
- c) eliminates in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, or eliminated in full). Intragroup losses may indicate an impairment requiring recognition in the consolidated financial statements. IAS 12 – Income Taxes is applied to the temporary differences occurring from the elimination of profits and losses deriving from transactions inside the group.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Uniform accounting policies

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

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

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

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

Reporting date

The financial statements of the parent and its subsidiary use the same reporting date in the preparation of the consolidated financial statements, namely December 31, 2016 for these financial statements.

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

The management assessed the power over its investees, derived from the voting rights attributed based on equity instruments (shares). The parent has rights to variable returns from its involvement in the subsidiaries in which it invested, which rights correspond to the performance of the investee. The management concluded that it not only has power over the group entities, but it also has the ability to use its power to affect its returns from its involvement with the investees.

Borrowing costs

The interest on the loans directly attributable to the purchase, construction or manufacture of an asset with long production cycle are capitalized until the asset is prepared for its predetermined use or sale, All the other costs related to loans are recognized as expenses in the profit and loss account for the period of their occurrence, Interest expenses are recorded using the effective interest rate method, In the years ended December 31, 2017 and December 31, 2016 the Company did not capitalize interest expenses in the assets' value.

Government grants

According to IAS 20, government grants are recognized 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 recognized systematically in the profit and loss account for the useful life of the assets they relate to.

This category also includes the equivalent value of the green certificates received as electricity producer, 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 realizable value. The net realizable 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. For inventories without moving or slow moving ones and finished goods adjustments are made based on the management's estimates.

The set-up and reversal of allowances for inventories impairment is made in the profit and loss account.

The Company uses the First-in-First-out (FIFO) method to determine the inventory outflow cost of supplied materials.

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

Receivables and other similar assets

Receivables and other similar assets are stated at amortized cost less impairments.

When a receivable is expected not to be fully collected, impairment allowances are recorded at the level of the amount that cannot be recovered. Receivables are written off following their collection or assignment to a third party. Current receivables can also be written off by the mutual offset of accounts receivable and payables between third parties, under the law. The receivables with expired collection time limits are written off after the Company obtains the documents proving that all the legal steps to recover these receivables were taken. Receivables written off continue to be monitored off the accounting records.

Cash and cash equivalents

For the purpose of the preparation of the statement of cash flows, 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 initial 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 recognized 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 and the settlement amount can be measured reliably.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Liabilities (continued)

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

- e) it is expected to be settled in the ordinary course of the Company's operating cycle; or
- f) it is primarily held for trading;
- g) it is due to be settled within 12 months after the balance sheet date;
- h) 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***.

Financial liabilities are presented at amortized cost, Deferred income classified as non-current liabilities are discounted using the effective interest rate method, The discount rate used to this effect is the rate determined according to the company's own procedures.

The Group derecognizes 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.

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

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 Company 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 by analyzing the temporary differences of assets and liabilities, The tax loss carried forward is included in the calculation of the deferred tax asset, A deferred tax asset is recognized 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 tax authority.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of goods

Revenue arising from the sale of is recognized 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 recognized when it is probable that any future economic benefits will flow to the Group and the amount of these benefits can be reliably measured.

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 is also the case of 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 recognized as **interest income**, The fair value of the consideration is determined by discounting all the amounts receivable in the future using an implicit interest rate.

The Group chose to use the interest rate determined under an internal procedure (based on interest rates used in the Romanian banking system) to discount the amounts receivable in the future.

Provision 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 recognized depending on the transaction stage of completion at the closing date of the reporting period, The result of a transaction can be reliably estimated when all the conditions below are met:

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

The Group uses the "percentage of completion method" to recognize the revenue depending on the transaction stage of completion, According to this method, revenue is recognized 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision of services (continued)

The revenue is recognized 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 recognized as an expense (provision for receivables) rather than an adjustment of the initially recognized revenue amount.

When the result of a transaction that involves the rendering of services cannot be reliably estimated, the revenue must be recognized only to the extent of the expenses recognized that are recoverable.

Rental income is recognized 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 recognized 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 recognized as a current expense in the period in which the allocation was approved.

The revenue arising from interest is recognized 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 can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement.

Provisions are recognized 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 recognized for:

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

When the review by the management together with the legal advisors of the chances for the Company to lose a lawsuit leads to the conclusion that the estimated probability for loss is higher than 50%, a provision is recognized at the reliably estimated amount.

Provisions for guarantees to customers are recognized 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Restructuring provisions

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 are recorded during the financial year for annual leaves not taken or other long-term employee benefits (if provided for in the labor contract), Upon their recognition as due 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 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 recognize 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 recognized in profit or loss as the related service is rendered.

The short-term employee benefits are wages and salaries, bonuses, and social security contributions, Short-term benefits are recognized as expense in the period in which the services are rendered.

The Group makes payments on behalf of its employees to the Romanian public pension system, the health fund and the unemployment fund in the ordinary course of business.

All the Group employees are enrolled in and required to contribute to the Romanian public pension system, All the related contributions are recognized in the profit and loss account for the period in which they are paid, The Group does not have other additional obligations.

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Profit or loss of the year

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 retained earnings, 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 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.

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

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 is the number of shares outstanding at the beginning of the 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.

Segment reporting

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 the company are traded on the Bucharest Stock Exchange and as it applies 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.
- for which discrete financial information is available.

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

- licensed activity – electricity supply and production.
- unlicensed activity;

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4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2016	145,072,415	124,685,081	28,946,064	3,167,543	1,441,162	303,312,264
Inflows of which:	2,301	298,537	5,825,485	571,389	1,920,859	8,618,571
- from revaluation	-	-	-	-	-	-
Outflows of which:	-	-	(2,698,618)	(149,343)	(1,734,745)	(4,582,706)
- from the determination of the net amount for revaluation	-	-	-	-	-	-
- revaluation decrease	-	-	-	-	-	-
As at December 31, 2017	145,074,716	124,983,618	32,072,931	3,589,589	1,627,276	307,348,130

Accumulated depreciation	Terenuri și amenajare de terenuri	Construcții	Echipamente tehnologice și vehicule	Alte imobilizări corporale	Imobilizări corporale în curs de execuție	Total
As at December 31, 2016	277,213	335,295	4,287,520	333,793	-	5,233,821
Depreciation for the year	25,834	4,187,800	5,883,158	1,002,912	-	-
Accumulated depreciation for outflows of which:	-	-	-	(340,823)	(156,913)	-
- from the determination of the net amount for revaluation	-	-	-	-	-	-
As at December 31, 2017	303,047	4,523,095	9,829,855	1,179,792	-	15,835,789

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment allowances	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Allowances for impairment recognized in profit or loss	-	-	-	-	-	-
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	-	-
As at December 31, 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value						
As at December 31, 2016	<u>144,795,202</u>	<u>124,349,786</u>	<u>24,658,544</u>	<u>2,833,750</u>	<u>1,441,162</u>	<u>298,078,444</u>
As at December 31, 2017	<u>144,771,669</u>	<u>120,460,523</u>	<u>22,243,076</u>	<u>2,409,797</u>	<u>1,627,276</u>	<u>291,512,341</u>

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2015	119,797,935	81,528,447	36,574,839	5,479,880	1,694,592	245,075,693
Inflows of which:	25,866,238	57,215,602	4,700,778	1,086,602	1,580,505	90,449,725
- from revaluation	25,866,238	56,828,512	1,307,002	40,061	-	84,041,813
Outflows of which:	(591,758)	(14,058,969)	(12,329,553)	(3,398,939)	(1,833,935)	(32,213,153)
- from the determination of the net amount for revaluation	(591,758)	(6,415,490)	(10,779,298)	(2,847,002)	-	(20,633,548)
- revaluation decrease	-	(7,643,616)	(1,042,862)	-	-	(8,686,478)
As at December 31, 2016	145,072,415	124,685,081	28,946,064	3,167,543	1,441,162	303,312,264
Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2015	251,379	3,421,548	9,979,271	2,451,989	-	16,104,187
Depreciation for the year	25,834	3,329,237	5,087,547	728,806	-	9,171,424
Accumulated depreciation for outflows of which:	-	(6,415,490)	(10,779,298)	(2,847,002)	-	(20,041,790)
- from the determination of the net amount for revaluation	-	-	-	-	-	-
As at December 31, 2016	277,213	335,295	4,287,520	333,793	-	5,233,821

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment allowances	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,367</u>	<u>98,367</u>
Allowances for impairment recognized in profit or loss	-	-	-	-	-	-
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	(98,367)	(98,367)
As at December 31, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value						
As at December 31, 2015	<u>119,546,556</u>	<u>78,106,899</u>	<u>26,595,568</u>	<u>2,892,832</u>	<u>1,596,225</u>	<u>228,873,139</u>
As at December 31, 2016	<u>144,795,202</u>	<u>124,349,786</u>	<u>24,658,544</u>	<u>2,833,750</u>	<u>1,441,162</u>	<u>298,078,444</u>

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

The inflows of tangible assets consist of modernization of the Group's premises and purchases of plant and machinery,

The outflows of tangible assets consist in decreases of value after reevaluation and disposals,

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

Name of asset	Net book value as at December 31, 2017	Net book value as at December 31, 2016
Land com, Domnesti, Ilfov County = 67,713,56 m2	12,299,569	12,299,569
Land com, Moara Vlasiei, Ilfov County = 70,469 m2	7,680,362	7,680,362
Land str, Mitropolit Filaret 35-37 sect, 4 Bucharest = 1,595 m2	3,621,527	3,621,527
Land str, Veseliei nr, 19 sect, 5 Bucharest = 16,095 m2	11,694,241	11,694,241
Real estate (cadastral parcels no,13,15,16) Calea Rahovei 266-268 Sector 5 Bucharest	39,493,685	40,004,085

The tangible assets also include assets acquired by Government grant and used in licensed activity in one of the small hydropower plants located in Brodina, Suceava County. The net carrying amount of the investment at December 31, 2017 is RON 13,652,431, of which RON 4,899,962 represents grant. The net carrying amount of the investment at December 31, 2016 was RON 5,063,181 represents grant.

At December 31, 2017 the parent-company holds 98,26% of total tangible assets of the Group.

Fair value of tangible assets

The tangible assets of the Group, other than tangible assets in progress are presented in the financial statements at revalued amount, representing the fair value at the date of valuation, less accumulated depreciation and impairment.

Fair value for lands was determined using direct comparison method.

This method is recommended for properties, when there is sufficient and reliable data on transactions or selling offers for similar properties in the area, Analysis of prices at which transactions were made on requested or offered prices for comparable properties is followed by the performance of price corrections, in order to quantify the prices paid, required or provided, due to differences between the specific characteristics of each property in some called elements for comparison.

The fair value of buildings was determined using the cost method and the income method.

The cost method requires that the maximum value of an asset for an informed buyer is the amount that is needed to buy or build a new asset with equivalent utility, When the asset is not new, the current cost of crude has low all forms of impairment that may be assigned to him, until the valuation date.

The income method provides an indication of value by converting future income flows in asset value (market value or investment value).

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Information on the fair value hierarchy as at December 31, 2017 and December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value at December 31, 2017</u>
Lands and land improvements	-	-	144,771,669	144,771,669
Constructions	-	-	120,460,523	120,460,523
				Fair value at December 31, 2016
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2016</u>
Lands and land improvements	-	-	144,795,202	144,795,202
Constructions	-	-	124,349,786	124,349,786

During 2017 and 2016, there were no transfers between levels related to fair value.

5. INVESTMENT PROPERTY

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

According to IAS 40, this category of property is recognized as investment property, The Group selected the fair value model for the presentation of investment property in its financial statements, The fair value revaluation as at December 31, 2017 was performed by an ANEVAR authorized company who used the income approach (discounted cash flow method).

As at December 31, 2017 the investment property is structured as follows:

	<u>2017</u>	<u>2016</u>
Opening balance	<u>7,664,546</u>	<u>2,194,374</u>
Inflows, of which:		
fair value valuation	1,273,461	5,525,428
Outflows, of which:		
fair value valuation	1,256,770	5,525,428
	(295,891)	(55,256)
	<u>(295,891)</u>	<u>(55,256)</u>
Closing balance	<u>8,642,116</u>	<u>7,664,546</u>

The revenues arising from the investment property in 2017 amounts to RON 3,557,621 and covers the expenses incurred by the owner (2016: RON 2,485,235).

The Group holds other rented spaces within buildings used in conjunction with other activities, These are not classified as investment property because the share in total revenues is insignificant, Also in most cases these spaces cannot be managed separately.

There are no restrictions on the level of realization of investment property or the transfer of revenue and proceeds from disposal.

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6. INTANGIBLE ASSETS

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

In the statement of financial position, they are presented at historical cost, less amortization and impairment.

The increase of intangible assets is mainly due to the renewal of some licenses.

The useful life was estimated at 3 years for most of the intangible assets, The ERP will be amortized over 5 years.

Intangible assets as at December 31, 2017 are as follows:

Cost	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2016	645,344	2,415,056	465,988	3,526,388
Inflows	106,864	296,853	63,700	467,417
Outflows	-	-	(317,567)	(317,567)
Transfers	-	-	-	-
As at December 31, 2017	752,208	2,711,909	212,121	3,676,238
Accumulated amortization	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2016	315,734	1,572,970	-	1,888,704
Amortization for the year	168,149	370,585	-	538,734
Accumulated amortization for outflows	-	-	-	-
As at December 31, 2017	483,883	1,943,555	-	2,427,438
Net book value				
As at December 31, 2016	329,610	842,086	465,988	1,637,684
As at December 31, 2017	268,325	768,354	212,121	1,248,800
Cost	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2015	356,826	2,302,492	12,701	2,672,019
Inflows	318,334	122,236	584,633	1,025,203
Outflows	(29,816)	(9,672)	(131,346)	(170,834)
Transfers	-	-	-	-
As at December 31, 2016	645,344	2,415,056	465,988	3,526,388

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6. INTANGIBLE ASSETS (continued)

Accumulated amortization	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2015	232,347	1,061,027	-	1,293,374
Amortization for the year	83,387	511,943	-	595,330
Accumulated amortization for outflows	-	-	-	-
As at December 31, 2016	315,734	1,572,970	-	1,888,704
Net book value				
As at December 31, 2015	124,479	1,241,465	12,701	1,378,645
As at December 31, 2016	329,610	842,086	465,988	1,637,684

7. OTHER NON-CURRENT ASSETS

This category mainly includes the performance guarantees granted to customers, which were classified as non-current according to the respective contracts and the green certificates deferred under GEO no, 57/2013.

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

	December 31, 2017	December 31, 2016
Performance guarantees granted to customers	635,927	1,190,452
Deferred green certificates	-	1,547,641
Trade receivables scheduled on the long term	18,983,576	14,300,538
Other	183,061	-
Total	19,802,564	17,038,631

On the basis of Ordinance 895 / 16.06.2017, the deferred green certificates were highlighted off-balance sheet and the company will recognize revenues as they are sold

Trade receivables scheduled on the long-term in net value of RON 19,619,503 as at December 31, 2017 have been discounted at present value, and the effect of the discount amounted to RON 1,163,892. The short-term portion is recognized in trade receivables (Note 10).

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8. INVENTORIES

	December 31, 2017	December 31, 2016
Raw materials	7,595,527	8,835,518
Consumables	1,477,930	2,193,526
Finished goods	5,519,294	4,072,140
Work in progress	2,418,229	2,095,608
Other inventories	1,549,249	2,145,191
Allowances for impairment of inventories	<u>(1,137,087)</u>	<u>(1,312,063)</u>
Total	<u>17,423,142</u>	<u>18,029,921</u>

Other inventories include items of inventory, finished goods or materials in custody at third parties and advances paid to suppliers of goods.

The changes in inventory impairments is as follows:

	2017	2016
Balance at the beginning of period	<u>1,312,063</u>	<u>1,265,916</u>
Increase	786,382	234,823
Decrease	<u>(961,358)</u>	<u>(188,676)</u>
Balance at the end of period	<u>1,137,087</u>	<u>1,312,063</u>

Allowances recorded in the reporting period are for obsolete or slow moving raw materials and consumables.

The Group did not pledge inventories to secure its liabilities, Out of total inventories registered as at December 31, 2017, 96,22% are of the parent.

9. 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 recognized as income or expense for the period.

	December 31, 2017	December 31, 2016
Internal trade receivables*	39,002,613	26,927,153
External trade receivables	5,523,930	8,038,254
Estimated trade receivables	938,610	1,654,838
Adjustment of internal trade receivables at present value	(590,408)	(479,967)
Impairment of trade receivables	<u>(4,104,655)</u>	<u>(1,623,928)</u>
Net trade receivables	<u>40,770,090</u>	<u>34,516,350</u>

* *Internal trade receivables include performance guarantees granted to customers with maturity under one year, As at December 31, 2017 they amounted to RON 1,210,558 (December 31,2016: RON 1,627,928).*

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9. TRADE RECEIVABLES (continued)

The sale contracts or services provision contracts concluded with customers under credit facilities have been discounted at present value, The total effect of the discount at present value was RON 1,754,300 of which RON 590,408 due in one year and RON 1,163,891 due in more than one year (Note 7).

The balance of trade receivables from customers as at December 31, 2017 is RON 708,392 (December 31, 2016: RON 3,126,627) and represents promissory notes issued by customers in favor of the Group under the contracts concluded.

The changes of impairment allowances of trade receivables are as follows:

	<u>2017</u>	<u>2016</u>
Balance at the beginning of period	1,623,928	1,533,883
Impairment allowance	2,580,794	158,651
Decreases of impairment allowances	(100,067)	(68,606)
Balance at the end of period	4,104,655	1,623,928

Doubtful accounts or litigating customers are in amount of RON 4,104,655 as at December 31, 2017 (December 31, 2016: RON 1,623,928).

The impairment recorded refers to amounts not collected from doubtful accounts or litigating customers and for which a risk of default was estimated according to the policy adopted by the Company.

The accounts receivable collection period has raised in 2017 to 98 days, compared to 76 days in 2016 because of the increase of sales under a supplier credit facility.

The maturity of receivables as at the preparation date of the statement of financial position is:

	<u>Gross value as at December 31, 2017</u>	<u>Provision as at December 31, 2017</u>	<u>Gross value as at December 31, 2016</u>	<u>Provision as at December 31, 2016</u>
Outstanding	35,396,087	-	29,138,179	-
Overdue between 1 - 30 days	4,040,358	-	3,035,113	-
Overdue between 31 - 90 days	534,355	-	378,656	-
Overdue between 90 - 180 days	363,601	-	506,012	-
Overdue between 180 - 365 days	185,378	-	354,436	-
More than 1 year	4,354,966	(4,104,655)	2,727,885	(1,623,928)
Total	44,874,745	(4,104,655)	36,140,278	(1,623,928)

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10. OTHER CURRENT ASSETS

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Debtors	40,411	179,553
Prepaid expenses	2,120,218	2,642,925
Debtor suppliers	24,697	21,175
Other assets	<u>232,715</u>	<u>321,873</u>
Total	<u>2,418,041</u>	<u>3,165,527</u>

The accrued expenses of RON 2,120,218 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 non-chargeable in amount of RON 231,979 (December 31, 2016: RON 315,550).

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In the group of financial assets at fair value through profit or loss the Group includes shares traded at the stock exchange (Level 1 inputs - determining fair value).

	<u>2017</u>	<u>2016</u>
Opening balance	<u>-</u>	<u>1,100,280</u>
Inflows of quoted shares	-	-
Outflows of quoted shares	<u>-</u>	<u>(1,100,280)</u>
Closing balance	<u>-</u>	<u>-</u>

12. CASH AND CASH EQUIVALENTS

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Petty cash	19,571	16,421
Current accounts with banks	20,549,649	21,502,666
Cash equivalents	<u>1,531,</u>	<u>2,341</u>
Total	<u>20,570,751</u>	<u>21,521,428</u>

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13. SHARE CAPITAL

The Group's share capital subscribed and paid up is RON 67,603,870, divided into 676,038,704 shares at nominal value 0,10 RON/share, fully paid-up and belongs to the parent.

The structure of the shareholders that own over 10% of the share capital as at December 31, 2017 is the following, according to the Central Depository Register:

SHAREHOLDER	December 31, 2017		December 31, 2016	
	No, of shares	%	No, of shares	%
Asociația PAS	200,302,763	29,6288	200,302,763	29,6288
SIF Oltenia SA	171,717,594	25,4006	171,672,301	25,3939
Natural persons	194,589,958	28,7838	193,778,348	28,6638
Legal persons	109,428,389	16,1867	110,285,292	16,3135
Total	676,038,704	100	676,038,704	100

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

14. RESERVES

Legal reserve

	2017	2016
Balance at the beginning of the period	34,422,742	56,866,046
Increases	-	273,331
Reductions	(211)	(22,716,635)
Balance at the end of the period*	34,422,531	34,422,742

According to Romanian legislation, 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 Group 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.

* The allowance for inflation following the application of IAS 29 to this reserves amounts to RON 24,020,209 at December 31, 2017 (December 31, 2016: 24,020,209).

Revaluation reserves amount to RON 86,843,127 as at December 31, 2017. They increased compared to the balance at the beginning of the year because of the revaluation.

	2017	2016
Balance at the beginning of the period	88,968,568	21,250,447
Increases	971,849	81,651,288
Reductions	(3,097,291)	(14,148,228)
Balance at the end of the period	86,843,127	88,968,568

At December 31, 2017 the Group has **other reserves** amounting to RON 62,216,798 of which reserves for own sources of founding represent 98%.

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14. RESERVES (continued)

	<u>2017</u>	<u>2016</u>
Balance at the beginning of the period	57,834,598	58,089,051
Increases	4,373,118	18,878
Reductions	-	(273,331)
Balance at the end of the period	62,207,716	57,834,598

15. RETAINED EARNINGS

As at December 31, 2017 the retained earnings arising from the transfer of reserves from revaluation related to depreciated or decommissioned assets was in amount of RON 3,097,291.

16. INVESTMENT SUBSIDIES

	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Investment subsidies as at December 31, 2017	4,899,962	163,219	4,736,743
Investment subsidies as at December 31, 2016	5,063,180	163,219	4,899,962

In 2012, the Group benefited from an investment subsidy of RON 5,997,788 granted for the modernization of the micro-hydro power plant in Brodina 2 (Suceava), which will be transferred to revenue concomitantly with the registration of the amortization of the non-current assets purchased under this project, The net book value of the fixed assets purchased from such grant are presented in Note 4.

17. PROVISIONS

Name	<u>Balance</u> <u>01.01.2017</u>	<u>Inflows</u> <u>(set-up)</u>	<u>Outflows</u> <u>(reversals)</u>	<u>Balance</u> <u>31.12.2017</u>
Provisions for Fines Competition Council	-	10,024,824	-	10,024,824
Provisions for performance guarantees to customers	1,462,750	921,494	(1,041,294)	1,342,950
Provisions for risks and charges	4,500	31,440	(4,500)	31,440
Provision for employees' benefits	365,885	2,345,058	(365,885)	2,345,058
TOTAL	1,833,135	13,322,816	(1,411,679)	13,744,272

The parent has concluded contracts for the supply of lighting units with warranty, for long periods, 2 - 4 years. The contracts do not provide for a percentage or amount of the performance guarantee, therefore the related provision is calculated based on the analysis of the history of costs incurred with goods under warranty.

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17. PROVISIONS (continued)

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, therefore the related provision is calculated based on the analysis of the history of costs incurred with goods under warranty.

On December 31, 2017, the Company set-up a provision of RON 10 million following the announcement of the Competition Council in January 2018 regarding the sanction of the company for an alleged breach of the competition law on the market for the production and trading of electricity meters and equipment related to the measurement of energy and on the market of services related to electricity measurement during the period 2010-2012. After the communication of the motivated decision, the Company will appeal in court the sanction decision within the legal term.

The provision for employee benefits relates to the value of the rest leaves not taken in the previous year and other provisions under labor contracts; its decrease was recorded while performing such leaves during the reporting period.

18. TRADE AND OTHER PAYABLES

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Internal trade payables	7,427,752	16,067,057
External trade payables	3,260,682	2,857,934
Estimated trade payables	<u>11,373,898</u>	<u>1,859,924</u>
Total	<u>22,062,332</u>	<u>20,784,915</u>
Advances received from customers	1,900,266	645,602
Salaries and social security contributions	2,919,914	3,636,730
Income in advance	100,778	1,548,974
Other payables	<u>14,069,257</u>	<u>10,980,000</u>
	<u>18,990,215</u>	<u>16,811,306</u>
Total	<u>41,052,547</u>	<u>37,596,221</u>

Liabilities are recorded at nominal value and are accounted for in the analytical records 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 recognized as income or expense for the period.

The liability settlement period increased to 73 days in 2017 compared to 62 days in 2016.

The Group does not have significant outstanding trade payables.

The Group does not have outstanding liabilities to employees and the state budget; the amounts presented represent liabilities for December 2017, which are paid on the due date, in January 2018.

The Group did not have long-term loans at December 31, 2017.

The guarantees received as at December 31, 2017 amount to RON 2,620,340 and will be settled according to the contractual terms.

<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
2,620,340	1,315,505	1,304,835

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Guarantees received

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19. INCOME

	<u>2017</u>	<u>2016</u>
Income	<u>223,246,080</u>	<u>236,253,958</u>
- Income from sold production	79,631,297	93,346,773
- Rental income	13,260,948	13,066,586
- Income from sale of goods	130,353,835	129,840,599
Investment income	<u>973,361</u>	<u>5,545,363</u>
- Interest income	12,482	15,909
- Net income from fair value measurement of investment property	960,879	5,571,031
- Other net investment income	-	(41,577)
Variation in inventories of finished goods and work in progress	13,407,878	15,924,803
Own work capitalized	<u>1,617,287</u>	<u>1,246,195</u>
Other net income	<u>(9,811,506)</u>	<u>4,890,167</u>
- Income from subsidies	3,335,999	2,805,486
- Net provisions	(14,227,165)	1,573,885
- Net foreign exchange difference	296,049	(2,671)
- Other income	783,610	811,467

Income from sold production decreased as a result of fluctuating orders as well as due to the postponement of auctions of electricity consumption measuring equipment and auctions of railway safety elements.

Net provisions are income from adjustments for impairment of inventories and receivables as well as income / expense with provisions for good execution guarantees granted to clients, the significant increase being represented by the provision of RON 10 million following the announcement of the Competition Council in January 2018, referring to sanction the Company for an alleged breach of the competition law on the market for the production and sale of electricity meters and related equipment for energy measurement and on the market for the provision of services related to electricity measurement during the period 2010-2012. After the communication of the motivated decision, the Company will contest in court decision to sanction within the legal time.

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20. EXPENSES

	<u>2017</u>	<u>2016</u>
Expenses related to materials	<u>166,496,995</u>	<u>170,169,019</u>
- Raw materials and consumables	47,656,514	51,806,832
- Goods purchased for resale	116,495,742	115,897,480
- Electricity, heating and water	<u>2,344,739</u>	<u>2,464,707</u>
Employee-related expenses	<u>36,406,993</u>	<u>36,459,838</u>
- Salaries	29,938,656	29,840,447
- Other employee-related expenses	<u>6,468,337</u>	<u>6,619,391</u>
Other expenses	<u>28,353,511</u>	<u>32,255,671</u>
Post	258,38	306,227
Maintenance expenses	516,027	508,967
Rentals	140,457	273,723
Advertisement and entertainment	590,293	369,102
Insurance	550,323	542,993
Transport and travel	1,280,191	1,659,303
Subcontracted work	5,912,836	8,279,692
Other taxes	1,487,629	1,331,265
Consultants and collaborators	2,034,831	1,809,617
Costs of green certificates	8,087,203	10,641,189
Other operating expenses	<u>7,495,340</u>	<u>6,533,593</u>
Expenses related to depreciation and impairment	<u>11,501,335</u>	<u>16,930,717</u>
- Depreciation	11,501,335	9,804,683
- Net impairment	-	6,498,964
- Impairment of current assets	<u>-</u>	<u>627,070</u>
Total expenses	<u>242,758,834</u>	<u>255,815,245</u>

Expenditure on raw materials and materials decreased due to the postponing of auctions of electricity consumption measuring equipment and auctions of railway traffic safety features.

The "Other operating expenses" line shows the services rendered by third parties, banking and similar services, fees and commissions etc.

21. FINANCIAL EXPENSES

	<u>2017</u>	<u>2016</u>
Interest expenses	29,135	72,757
Bank charges	<u>656,952</u>	<u>581,935</u>
Total financial expenses	<u>686,087</u>	<u>654,692</u>

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22. INCOME TAX

Income tax recognized through profit or loss:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current income tax		
Current income tax expenses	645,983	1,140,304
Deferred income tax		
Deferred income tax expenses/income	<u>(208,322)</u>	<u>(129,750)</u>
	<u>437,661</u>	<u>1,010,554</u>

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

Caption	2017	2016
Net accounting (loss)/profit	<u>(14,449,482)</u>	<u>6,379,995</u>
Deductions	(7,913,235)	(8,839,506)
Non-taxable income	(3,429,880)	(14,412,875)
Non-deductible expenses	29,829,991	29,975,025
Taxable (loss)/profit	4,037,394	13,021,377
Tax loss from previous years	-	(5,630,827)
Current income tax	645,983	1,012,357
Income tax reduction	<u>-</u>	<u>(1,803)</u>
Income tax due at the end of period	<u>645,983</u>	<u>1,010,554</u>

The tax rate used for the reconciliations above is 16%.

As at December 31, 2017, the current income tax due is RON 523,952 (December 31, 2016: RON 275,933).

The analysis of deferred tax for the reporting period is shown below:

	<u>Opening balance</u>	<u>Through profit or loss</u>	<u>Through other comprehensiv e income</u>	<u>Closing balance</u>
Property, plant and equipment	(18,527,595)	(545,749)	962,857	(18,110,487)
Receivables	213,639	67,049	-	280,688
Impairment of receivables	259,828	398,350	-	658,178
Impairment of inventories	209,930	(27,996)	-	181,934
Employee-related benefits	<u>58,542</u>	<u>316,667</u>	<u>-</u>	<u>375,209</u>
TOTAL	<u>(17,785,656)</u>	<u>208,322</u>	<u>962,857</u>	<u>(16,614,478)</u>

The deferred income tax resulted from different accounting and tax depreciation methods, and the one from revaluation reserves resulted from the revaluation of tangible assets registered after January 1, 2004, which are taxed concomitantly with the deduction of the tax depreciation.

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23. AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Group	621	652
Parent	577	583

The expenses incurred for salaries and related taxed in the years of 2017 and 2016 are:

	<u>2017</u>	<u>2016</u>
Expenses related to salaries	29,938,656	29,840,447
Expenses related to social security contributions	6,468,337	6,619,391
Total	<u>36,406,993</u>	<u>36,459,838</u>

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

24. RELATED PARTY TRANSACTIONS

At December 31, 2017 and December 31, 2016, the Group had no related parties apart from the subsidiaries included in the consolidation, Balances and transactions with them were eliminated in the preparation of the consolidated financial statements.

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

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

25. INFORMATION ON SEGMENTS OF ACTIVITY

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

- Licensed activity – electricity supply and production
- Unlicensed activity

The aggregation criterion relies on the license needed to run business and the conditions required by the license, such as presentation of separate financial statements, The electricity production and supply were aggregated as they constitute an integrated process for some of the operations,

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

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25. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

2017	Unlicensed activity	% Total Group	Licensed activity	% Total Group	Total Group
	(16,472,204				(14,449,482
Net profit)	100,0	2,022,722	n/a)
Total assets	319,514,929	79,40	82,872,915	20,60	402,387,844
Total liabilities	46,253,977	60,20	30,581,235	39,80	76,835,212
Customer revenue	92,379,795	41,38	130,866,285	58,62	223,246,080
Interest income	12,482	100	-	n/a	12,482
Impairment and depreciation	9,220,444	80,17	2,280,891	19,83	11,501,335
	Unlicensed activity Restated	% Total Group	Licensed activity	% Total Group	Total Group Restated
Net profit	12,852,878	100,0	(6,472,883)	n/a	6,379,995
Total assets	325,042,188	80,92	76,610,343	19,08	401,652,531
Total liabilities	31,504,577	50,36	31,049,549	49,64	62,554,126
Customer revenue	105,360,293	44,59	130,893,665	55,41	236,253,958
Interest income	75,089	100	-	n/a	75,089
Impairment and depreciation	7,626,421	45,05	9,304,296	54,95	16,930,717

Main products and production structure

The Company benefits from a wide range of technologies and equipment that enabled it to obtain a rich diversity of products. The main groups of products in its turnover from the industrial production (excluding services) is as follows:

LED lighting units, systems and solutions

The production of LED lighting units has the largest share on the whole production of the Company (57.5% of the sales). In 2017, the sales increased by 4.6% as compared to the previous year. The growth trend maintains particularly in the street and commercial lighting sector. The LED lighting units are more and more demanded for export, with a share of approximately 7% in the total exports. The product range covers the following:

- Street lighting;
- Commercial premises (supermarkets, commercial galleries, gas stations, warehouses, stands, parks, showcases, advertising panels);
- Industrial premises (plants, warehouses, etc.);
- Offices;
- Public buildings (institutions, hospitals, schools);
- Residential sector.

The competitive advantage of LED lighting equipment is due to their high efficiency (over 130 lm/w), long service life and reduced maintenance costs. In addition, the LED lighting units provide high quality lighting, are environmentally friendly and can be integrated in telemanagement systems.

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25. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Electricity distribution and metering equipment

The whole production of meters and metering systems is targeted at the domestic market. The electricity meters are sold as such or integrated in EnergySys systems for electricity metering and telemanagement. In 2017, the sales of electricity meters and telemanagement systems represented less than 1 % of the total turnover of the Company, cumulating approximately 2 million lei. It should be noted that during the last years, the specific production fluctuated with the dynamics of the acquisitions carried out by the electricity distribution companies. In comparison with the previous year, 2017 brought 78 % less sales. EnergySys is already a well known product on the market, being produced in its third version. The latest version of the system reflects the worldwide trends in the field of smart networks and also the requirements imposed by the energy market regulator (ANRE). The new system allows for improved quality of the services provided, better safety in operation as well as the operation information of consumers thanks to its capacity of monitoring, measuring and sending a range of complex information to the electricity distributor.

Plastic injection molded subassemblies

The production of plastic injection molded subassemblies and molds decreased by 8.3 % as compared to the previous year. This group of products has the second largest share 35% of the total exports of the Company. The production of plastic injection molded subassemblies also benefits from the onsite manufacture and repair of the molds, manipulators and robots.

Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB Italy) was an element of continuity and stability in the production intended for export, in 2017 representing approximately 43 % of the total exports. This group of products registered an increase of 18.7 % in sales, as compared to 2016.

Electricity production from renewable sources

The electricity production is regulated by ANRE; the Company has been a licensed producer since 2007. In 2017 there was no further need for investments in the 10 micro-hydro power plants (MHPs) along the Suceava River, as they had been recently modernized through an investment program completed in 2014. In 2017 the electricity production was of 11,989 MWh, being slightly exceeded the average production of the last few years.

The revenues of 2017 were higher than in the previous year as a result of an increased physical energy production and also of the fact that, starting from March 2017, the company received all the due green certificates for its current production. The deferral period set-up by OUG 57/2013 reached the end.

Between 2013 and 2017, the number of the deferred green certificates was 11281. They are to be received in installments starting from 1 January 2018, at an estimated frequency of 1000 green certificates/year. For 2018 we estimate the production to be maintained at the same level, with a number of 25,200 green certificates.

Railway traffic safety components

The sales of railway traffic safety components could not repeat the performance registered in 2016, because the projects for the railway infrastructure modernization were either completed or interrupted. The future evolution of this product category broadly depends on the timetable for the modernization of the railway infrastructure.

Other industrial products

This category includes the production of metal works and other subassemblies from the production of 2017, the sale of these products represented a total share of 1.8%.

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25. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Main services provided

Electricity supply services

The electricity supply business is regulated by ANRE. The Company has been an authorized supplier since 2001; in 2013 the license was renewed for another 10 years, under the provisions of the new energy law (Law no. 123/2012). In 2017, the turnover achieved from the electricity supply business maintained at the level of the previous year, as a result of a stabilization of the customer portfolio at a size that allows a more effective risk management. Due to the prudential policies applied on medium term, and also to the customer portfolio, before the end of 2017 the company succeeded in covering the loss suffered in the first half of the year, when it faced an extreme price volatility on the electricity market.

A significant part of the need of green certificates for the whole supply customer portfolio was covered in 2017 by the certificates obtained for the electricity produced by the company's own micro-hydro power plants.

Rental and utility supply services

Electromagnetica administers approximately 28,800 sqm of rentable premises in Bucharest, as well as 3,500 sqm in Varteju commune, Ilfov County. At the end of 2017, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 98%, for an average rental price of 6.63 euro/square meter. For the premises in Varteju commune (Magurele), the level of occupation was 100%, for an average rental price of 1.81 euro/square meter, with a downward trend, given the large supply of modern industrial space in the area and low rental demand.

The rental and utility supply activity had a slight increase of 1.56 % as compared to the previous year, in the context of a higher level of occupancy and the average Eur-Leu exchange rate which had a favorable evolution. The pressure on rental revenues will also manifest in the following period, as an effect of the downsizing of some tenants or the migration thereof to spaces rented at a lower medium price per square meter or with additional facilities. The office market will become increasingly competitive. The high level of delivery will exceed the office demand in Bucharest, possibly leading to a lower level of occupation, mainly in buildings which are old or located in hard-to-reach areas. These building will need investments in retrofitting or a reduction of the costs of occupation in order to remain competitive with the new generation of buildings, most of which are environmental-friendly, equipped with state-of-the-art facilities and excellent connections to public transport, especially to the underground.

26. RISK MANAGEMENT

The Group is exposed to the following risks:

Equity risk

Equity risk management aims to ensure the capacity of each company to carry out its activity in good conditions through the optimization of the capital structure (equity and liabilities), The analysis of the capital structure is focused on the cost of capital and the risk associated to each category, To maintain an optimum capital structure and an appropriate debt ratio, in the last years the Group proposed to its shareholders an adequate dividend policy, able to secure own sources of funding, The absence of funding sources can limit the Group expansion on the market segments where the sale is supported through the commercial facilities offered.

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26. RISK MANAGEMENT (continued)

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. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency. The Group is paying more attention to the creditworthiness and financial discipline of its contractual partners. It should be mentioned that during the first quarter of 2017, several electricity suppliers became or declared to be insolvent. Therefore, we can speak about a deterioration of the business environment and a direct manifestation of the credit risk.

	<u>2017</u>	<u>2016</u>
Trade receivables	60,389,593	48,816,888
Other receivables	2,418,041	3,165,527
Cash and cash equivalents	<u>20,570,751</u>	<u>21,521,428</u>
	<u>83,378,385</u>	<u>73,503,843</u>

Market risk

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

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

The Company is exposed to **foreign exchange risk** because the supply of materials mainly comes from import and the share of exports increased, To limit the effect of foreign exchange, the payment schedule was correlated with the proceeds in foreign currency, the Group usually recording cash-flow surplus, The Group monitors and manages on a permanent basis its exposure to exchange rate differences,

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 2017, their situation is as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Net exposure</u>
EUR	3,318,007	583,967	2,734,040
USD	291,111	139,851	151,260
	<u>Assets</u>	<u>Liabilities</u>	<u>Net exposure</u>
EUR	2,491,850	447,775	2,247,795
USD	570,895	124,219	446,676

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26. RISK MANAGEMENT (continued)

The analysis of the foreign exchange risk sensitivity for a +/- 10% variation in the exchange rate shows an impact on the gross result of the period of +/- RON 1,332,843.

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.

Price risk includes the risk of changes in acquisition prices, exchange rate and interest rate, Among the markets where the Group is present, the energy market has the highest level of price risk, given the volatility of prices on the Day Ahead Market and the Balancing Market, as well as the absence of long-term risk coverage mechanisms, The behavior of the electric power producers, consisting in selling as much as possible on the spot market, increases the price risk on that market, To control the price risk on the energy market, the Group took action for reducing its exposure by re-dimensioning its customer portfolio and externalized the balancing services.

The risk of changes in the interest rates is kept under control by adopting an investment policy exclusively based on own funding sources, which allows for the use of credit lines only for the working capital.

The Group is exposed to exchange rate risk because the sourcing of materials is largely based on imports, In order to limit the effect of the exchange rates, the payment schedule was correlated with that of receipts in foreign exchange, usually ensuring a cash-flow surplus, The change in prices of raw materials and materials entailed a continuous review of cost prices, To maintain some of the products profitable, the Company cooperated with the suppliers for ensuring price control and the related technological processes were improved.

Liquidity and cash flow risk

The Group cash flow department prepares forecasts on the liquidity reserve and maintains the appropriate level of credit facilities in order to be able to prudently manage the liquidity and cash flow risks. To this effect, the decision of the general meeting of shareholders of September 14, 2017 extended the mortgage agreements in favor of the banks with which the Company has opened credit lines and letters of bank guarantee within the limit of 40% of the total fixed assets, less receivables, to ensure the Company's capacity to perform its obligations in case of short-term cash deficit. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover. The liquidity and cash-flow risk management policy should be adapted to the resized activity of electricity supply.

The liquidity and cash-flow risk management policy should be adapted to the resized activity of electricity supply, The risk analyzed above is closely related to the sanction-related risk and the dispute-related risk, which are described below and the new and more exigent commercial practices, This risk is closely related to the risks described,

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26. RISK MANAGEMENT (continued)

Liquidity and cash flow risk (continued)

The status of trade receivables and payables according to maturity is presented below:

	December 31, 2017	Exceeded	0 - 1 year	1 - 2 years	2 - 5 years	In more than 5 years
Trade receivables	60,389,593	5,385,447	34,856,679	7,807,866	12,339,601	-
Trade liabilities	22,062,332	658,053	21,337,121	67,158	-	-

	December 31, 2016	Exceeded	0 - 1 year	1 - 2 years	2 - 5 years	In more than 5 years
Trade receivables	48,816,888	5,373,409	28,287,666	4,686,755	10,469,058	-
Trade liabilities	20,784,915	902,034	19,798,277	65,290	19,315	-

Political and legislative risk

The Group's activity on regulated markets, such as the electricity supply and production market, exposes the Company to a legislative risk, For instance, the energy market was influenced by the exemption of large consumers from the obligation to pay an important part of the green certificates and also by the price changes which stimulated the export of energy.

The national implementation of European directives on energy efficiency can stimulate the sale of LED lighting solutions; at the same time, their delayed or inappropriate regulation can disturb the specific market.

Disaster 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 on 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.

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26. RISK MANAGEMENT (continued)

December 31, 2017	<u>Net value</u>	<u>Fair value</u>	<u>Level</u>
Financial assets			
Trade receivables	40,770,090	40,770,090	Level 1
Cash and cash equivalents	20,570,751	20,570,751	Level 1
Other current assets	2,418,041	2,418,041	Level 1
	<u>63,758,882</u>	<u>63,758,882</u>	

December 31, 2017	<u>Net value</u>	<u>Fair value</u>	<u>Level</u>
Non-current financial liabilities			
Trade and other payables	1,304,836	1,304,836	Level 1
	<u>1,304,836</u>	<u>1,304,836</u>	
Current financial liabilities			
Trade payables	39,747,711	39,747,711	Level 1
	<u>39,747,711</u>	<u>39,747,711</u>	

December 31, 2016	<u>Net value</u>	<u>Fair value</u>	<u>Level</u>
Financial assets			
Trade receivables	34,516,350	34,516,350	Level 1
Cash and cash equivalents	21,521,428	21,521,428	Level 1
Other current assets	3,165,527	3,165,527	Level 1
	<u>59.203.305</u>	<u>59.203.305</u>	

December 31, 2016	<u>Net value</u>	<u>Fair value</u>	<u>Level</u>
Non-current financial liabilities			
Trade and other payables	2,784,610	2,784,610	Level 1
	<u>2,784,610</u>	<u>2,784,610</u>	
Current financial liabilities			
Trade payables	34,811,611	34,811,611	Level 1
	<u>34,811,611</u>	<u>34,811,611</u>	

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26. RISK MANAGEMENT (continued)

General framework for risk management

The Board of Directors of the Group has the general responsibility for the establishment and supervision of the risk management framework at Group level, The activity is governed by the following principles:

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

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

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

The internal audit of the Group's 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 facing.

27. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

As at December 31, 2017, the Company had the following commitments for bank loans and guarantee agreements/loan contracts concluded with the financing banks (BCR, BRD, LIBRA internet Banking):

- revocable credit line from BCR in amount of RON 9,000,000 not committed as at December 31, 2017.
- Guarantees: 1st, 2nd, 3rd rank mortgage on land outside the built-up area, and 1st rank mortgage on the accounts opened with BCR.
- non-cash guarantee agreement with BCR in amount of RON 30,000,000 of which the amount of RON 26,429,142 was committed.
- Guarantees: 3rd rank mortgage on the accounts opened with BCR, 1st and 2nd rank mortgages on some real estate
- Guarantee agreement acord with cash collateral amounting to EUR 16,050, Guarantee Letter issued to the beneficiary Lukoil.
- credit facility with BRD (non-cash) in amount of RON 8,000,000 of which non-cash committed as at December 31, 2017 in amount of RON 7,960,943.

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27. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Commitments (continued)

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

- guarantee agreement authorized overdraft of RON 15,000,
Guarantees: collateral cash deposit in amount of RON 15,000
- guarantee agreement authorized overdraft in amount of RON 75,000,
Guarantees: collateral cash deposit in amount of RON 75,000
- credit line from Libra Internet Bank in the amount of RON 5,000,000, committed on December 31, 2017, worth RON 0.01.
- Convention on the issuance of bank guarantee letters, from Libra Internet Banking in the amount of 10,000,000 lei, of which the amount of 3,027,893 lei was committed on 31 December 2017.
- mortgage on bank accounts opened on behalf of the borrower at all Libra Internet Bank units.
- the mortgage on the receivables resulting from the lease agreements for lots 13 and 15.
- mortgage on real estate - land and construction - lots 13 and 15.

The commitments from customers and tenants as letters of guarantee December 31, 2017 are in amount of RON 26,236,710 according to the contractual clauses.

Contingent liabilities

Litigation

The litigations in which the Company is involved are values that are not able to affect the financial stability of the company. The only exception, judging by the value of Hidroelectrica's claims, is the case number 13259/3/2015 which, after the court of first instance dismissed the applicant's request, is at the instance of the appeal court (Bucharest Court of Appeal).

28. SUBSEQUENT EVENTS

The influence of the regularization of the final quota of green certificates for the energy supply activity carried out in 2017 was not reflected in the financial statements due to the delayed publication of the ANRE Order no. 38 / 28.02. 2018. Regularization will have no impact on profit.

We mention that the fine of the Competition Council amounting to RON 10,024,824 of which the Company was notified at the beginning of January, was reflected in the annual financial statements as at 31 December 2017.

On January 31, 2018, the Administrative Board approved a reorganization plan due to the financial situation for 2017. Mainly, the plan refers to the dismantling of posts for reasons beyond the employee's terms and the reduction in wages in some cases. The estimated financial impact is not material to the individual financial statements.

On the date of preparation of the financial statements, the company management has no knowledge of events, economic changes or other factors of uncertainty that could significantly affect the company's liquidity or earnings, other than those specified.

These consolidated financial statements were approved for issuance by the management as at March 20, 2018.

Eugen Scheuşan

Managing Director

Cristina Florea

Economic Manager

CONSOLIDATED ADMINISTRATORS' REPORT
FOR THE FINANCIAL YEAR 2017

Report date: 20.03.2018

Company name: Electromagnetica SA

Registered office: 266-268 Calea Rahovei Street, District 5, Bucharest, postal code 64021

Tel/ Fax: 021 404 2102/ 021 404 2195

Tax ID 414118

Trade Register no.: J40/19/1991

Regulated market: Bucharest Stock Exchange (BVB), Equity securities, Shares, Premium category

Stock symbol: ELMA

Number of shares: 676.038.704

Nominal value: RON 0.1000

Share capital: RON 67,603,870.40

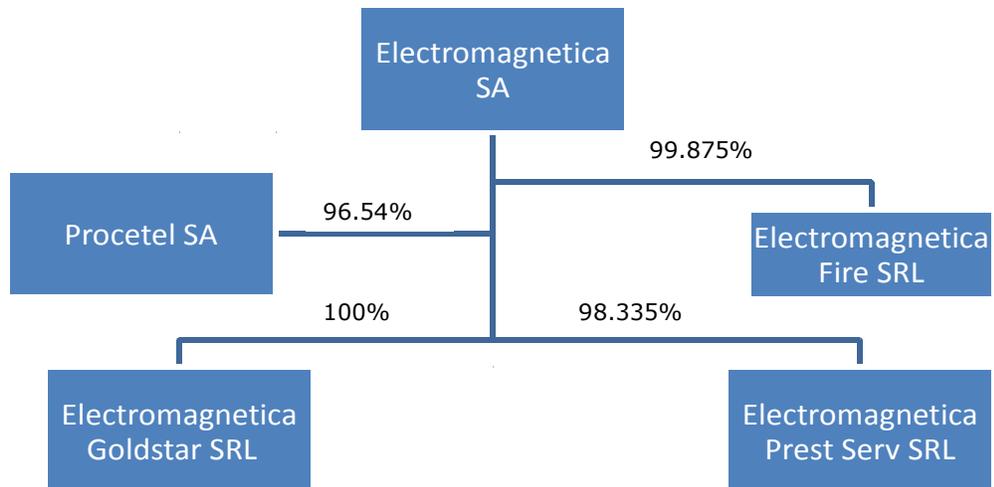
1. Group overview

Group history

The parent-company was established in 1930 as "Standard Electrica Romana". Regarding other entities within the Group, they were established as follows:

- *ELMA Goldstar* - was founded in 1991 and operated as a joint venture with Romanian-Korean capital until 2011, when Electromagnetica bought all the shares and became sole owner.
- *Procetel SA* – was founded in 1991, having as main activity research and development in natural sciences and engineering. Currently, this activity was reduced drastically, the main financial results of the company came from rental activities.
- *ELMA Prestserv* - was founded in 2003 in Bucharest by outsourcing cleaning services of the parent company.
- *ELMA Fire* – was founded in 2006 in Bucharest by outsourcing technical support services for prevention and firefighting and emergency services private civil protection.

2. Group structure



3. Overview of the Group's business

3.1. Overview of the parent company

Electromagnetica SA is a Romanian legal entity incorporated under the legal form of joint-stock company for an unlimited duration and organized and operating under its articles of incorporation, Law no. 31/1991 republished in 2004 and amended by Law no. 441/2006, Government Emergency Ordinance (GEO) no.82/2007 and GEO no. 52/2008, and the Law no. 297/2004 on capital market.

The Company's share capital is RON 67,603,870.40 divided into 676,038,704 ordinary shares, registered and dematerialized, which are recorded in electronic account in the shareholders' register held by Depozitarul Central SA (Central Securities Depository). According to the Company's articles of incorporation, its main object of activity is the manufacture of instruments and appliances for measuring, testing and navigation (NACE code 2651).

Electromagnetica SA, in its capacity of trading company whose shares are admitted to trading on a regulated market, adopted the IFRS (International Financial Reporting Standards) starting with the financial year 2012. The financial statements for 2017 were prepared in compliance with Order no. 2844/2016 of the Minister of Public Finance (OMFP) approving the accounting regulations compliant with the International Financial Reporting Standards.

Electromagnetica prepares consolidated financial statements as parent-company. Taking in consideration the very low influence of subsidiaries on the consolidated operating result, the details are related to the parent-company.

3.2. Overview of the subsidiaries

Procetel SA is a joint-stock company with its registered office at 266-268 Calea Rahovei Street, Bucharest, district 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). Currently, its revenue comes from its rental activity. Electromagnetica SA owns 96.54% of the share capital of Procetel SA. The company is managed by a sole director. Until the death of Mr. Vlad Florea on July 14, 2017, he served as the sole administrator. At present, the majority shareholder has initiated the necessary steps for convocation by the court of a general meeting in order to appoint a new administrator.

Electromagnetica Goldstar SRL is a limited liability company with its registered office in Bucharest, 266-268 Calea Rahovei Street, district 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). The company carries out servicing and free of charge servicing (warranty) activities for communication equipment and real estate rental activities. Electromagnetica owns 100% of the share capital of Electromagnetica Goldstar SRL. Until the death of Mr. Vlad Florea on July 14, 2017, he served as the sole administrator. At present, the sole administrator function is owned by Mrs. Antoaneta Monica Stanila with a term of office of 4 years as of 26.07.2017.

Electromagnetica Prestserv SRL is a limited liability company providing cleaning services, having its registered office at 266-268 Calea Rahovei Street, district 5, building 1, 2nd floor, axes A-B, pillars 1-2, registered with the Trade Register Office attached to Bucharest Tribunal under no. J40/1528/2003, Tax ID 15182750. Electromagnetica owns 98.335% of the company capital. The company is managed by a sole director, Mr. Ciobanu Gheorghe, whose mandate expires on 03.11.2018.

Electromagnetica Fire SRL is a limited liability company with its registered office at 266-268 Calea Rahovei Street, district 5, building 2, ground floor, axes C-D, pillars 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. Electromagnetica owns 99.875% of its share capital. The company is managed by a sole director, Mrs. Rogoz Maria, whose mandate was prolonged for another 4 years starting with March 26, 2018.

4. Merger and reorganization of the companies controlled by Electromagnetica in 2017

In 2017, there were no changes in the shareholding structure of the related companies. Except for Electromagnetica Goldstar SRL, the other companies carry out their activities in direct relation with their parent company.

On the agenda of Electromagnetica EGMS convened for 26/27 April 2017 there is the dissolution of the Electromagnetica Goldstar SRL and Procetel SA. Also, on the agenda of the EGMS there is the division of some land lots owned by the parent company and the one owned by Electromagnetica Goldstar SRL and then joining them in order to expand a plastic injection production hall. The land of 182 sqm was transferred through a purchase transaction. The dissolution of the two subsidiaries has not yet been achieved because Procetel SA has been unable to name a new sole director.

5. Parent's related party transactions

Sales of goods and services to subsidiaries, totaling RON 145 thousand, include deliveries of different materials, rent and utilities. Purchases from subsidiaries, totaling RON 2.964 thousand, include rent, utilities, cleaning and transport, and fire prevention. Procetel SA and Electromagnetica Goldstar Ltd provide renting services to the parent company. Electromagnetica Prestserv SRL provides to the parent company cleaning services and Electromagnetica Fire Ltd provide fire defence activities, technical assistance and fire prevention, emergency private services and civil protection, electrical work and cleaning services. The rental services received by parent company from Electromagnetica Goldstar Ltd and Procetel SA offer the right to rent to independent entities as the subsidiaries do not have sufficient and specialized staff to manage these leases. The spaces are subleased without applying a profit margin or charging a fee for the services rendered to affiliates.

Electromagnetica SA provides rental and utility services to subsidiaries.

6. Parent company's contribution to the Group's result

The analysis of individual and consolidated financial statements shows that subsidiaries have very little influence on the EBITDA, as follows:

	December 31, 2017			December 31, 2016		
	Group	Parent company	%	Group	Parent company	%
Non-current assets	321,205,820	316,001,253	98.37%	324,419,304	319,773,830	98.57%
Current assets	81,182,023	75,973,726	93.58%	77,233,226	72,380,121	93.72%
Total equity attributable to company's shareholders	325,297,642	316,104,451	97.17%	338,883,343	330,551,942	97.54%
Non-current liabilities	22,656,057	22,130,270	97.67%	25,470,228	24,926,082	97.86%
Current liabilities	54,179,155	53,740,257	99.18%	37,083,898	36,675,928	98.90%
Profit/(Loss) before tax	(14,011,821)	(14,970,380)	106.84%	7,390,550	5,234,213	70.82%
Profit/(Loss) of the period	(14,448,482)	(15,370,332)	106.37%	6,379,995	4,327,847	67.83%
EBITDA	8,454,157	7,975,124	94.33%	19,081,973	16,813,327	88.11%

The four subsidiaries have a small contribution to the consolidated operating result. This is explained by the fact that three of them operate closely with the parent company.

7. Description of the Group's activity

Except Electromagnetica Goldstar Ltd, the subsidiaries operate mainly in relation to Electromagnetica SA, completing the activities of the parent company by services that have been outsourced (cleaning, fire protection, technical assistance for prevention and firefighting and emergency private services on civil protection) and rental services.

Electromagnetica Goldstar Ltd operates outside the Group, offering communications equipment, services and warranty.

The parent is the only producing company. As the activity of the Group is determined mostly by the activity of the parent company, the issues covered in this chapter refer exclusively to Electromagnetica SA.

7.1. Description of the parent company's main activity

The Company carries out several manufacturing activities and services, as follows:

Production

- LED lighting units, systems and solutions
- Electricity distribution and metering equipment
- Battery charging stations for electric cars and rectifiers for industrial applications
- Railway traffic safety components
- Plastic injection molded subassemblies, electrical, electronic and metallic products for the domestic and external market
- Tools and molds
- Low voltage switchgear (fuels exported to ABB Italy)
- Electricity obtained from hydro renewable sources
- Various machining and assembling operations

Services

- Electricity supply
- Rental of real estate and supply of utilities for offices, industrial activities, etc.

Electromagnetica manufactures products of its own conception, designed and developed by its own research and development team, but it also works on orders to make various metal and injection molded plastic subassemblies, electrical devices, tools and molds.

Electromagnetica has developed its own concepts of LED lighting units and systems since 2010 and now it is in a position to offer a wide range of products for street, industrial, commercial and residential lighting. The LED lighting products represent the highest share of Electromagnetica production, the Company being the main domestic producer.

The production of electrical meters has a long tradition and it has been developed into energy measurement and remote management equipment designed to meet the highest standards in the field. The railway traffic safety components are also classical products of the Company portfolio.

The Company has its own laboratories of metrology, electromagnetic compatibility and luminotechnique.

A parallel concern was to take full profit of the Company real estate by fitting out and renting surplus premises which underwent significant modernization. The production of electricity takes place in 10 micro-hydro power plants (MHPs), located in Suceava County.

7.2. Main purchases and/or disposals of assets

The Company did not purchase or alienate independent assets in 2017.

In 2017, the investments were financed from own funds and totaled approximately 1.1 million euro. The main purchases were made to upgrade technological processes with new equipment, respectively TDVs (tools, devices and verifiers), measuring, control and adjustment instruments and vehicles. The company also invested in delivery vans and in various construction and modernization works for some buildings.

The value of the intangible assets purchased was low, consisting of several software licenses which were necessary for the research and development activities.

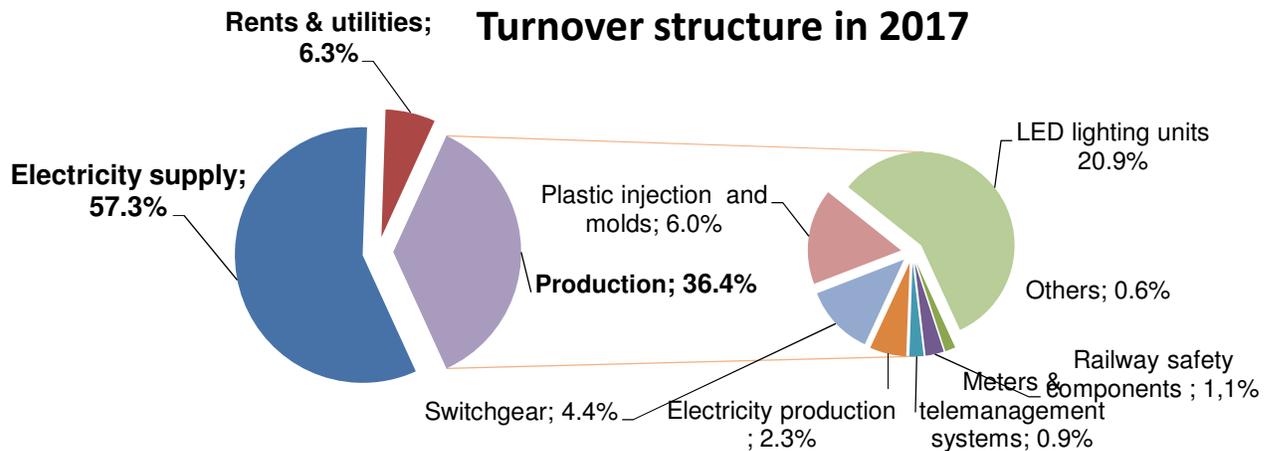
During the reporting period, no significant alienation of tangible assets took place; the Company discarded a few items and made a few low value sales of old vehicles and equipment which had been put out of service.

7.3. Main events with significant impact

During 2017, the main elements significantly impacting on the Company activity were the following:

- fluctuating order intakes for some categories of products from the company's portfolio, such as electricity meters, telemanagement systems and railway traffic safety components;
- an extreme volatility of the electricity market, mainly in the first quarter of the year, with an impact on the short-term profitability of the electricity supply business;
- a decreased share of the production in the total turnover, as a result of a reduced production volume and the stabilization in the electricity supply business.
- The increased number of turn-key LED lighting projects integrating several products and services provided by the Company (lighting units, design, installation, maintenance);
- New highly efficient LED lighting units started to be manufactured, to maintain sales on the most dynamic market segments (street lighting) and compensate the reduction of the growth potential on other segments (commercial lighting);
- The rental income was maintained as a result of the high level of occupancy and the influence exercised by the exchange rate;
- The normal hydrological conditions allowed for a renewable energy production to reach the average amount achieved in the last years.

7.4.

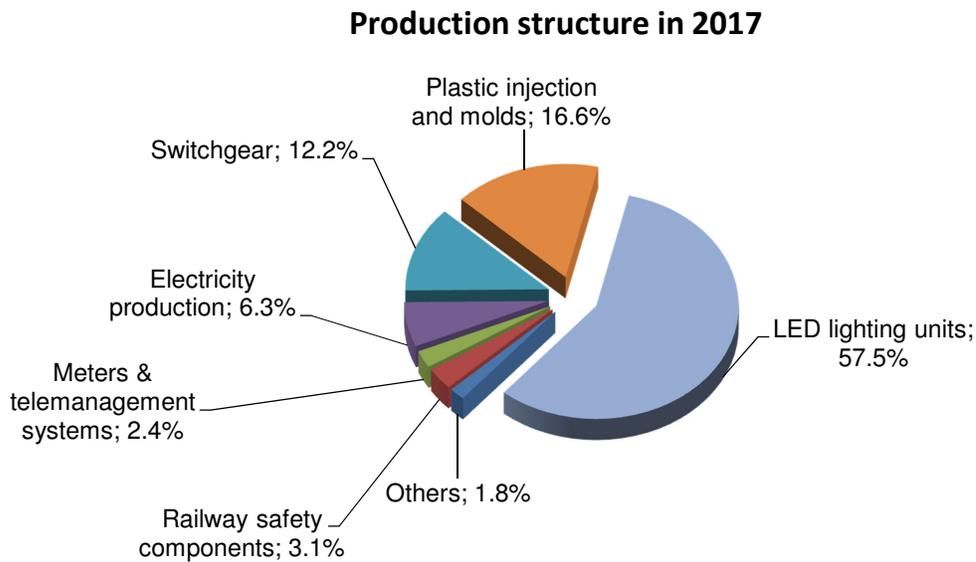


The production-related income decreased by approximately 13 %, while those resulted from electricity supply services as well as the rental services stabilized, maintaining at the level of the previous year. The main production value increase was registered for switchgear, electricity production and LED lighting units. Production mainly decreased for electricity meters and telemanagement systems, as well as for railway traffic safety components.

7.5. Evaluation of the Company’s technical level

7.5.1. Main products and production structure

The Company benefits from a wide range of technologies and equipment that enabled it to obtain a rich diversity of products. The share of the main groups of products in the turnover related to industrial production (excluding services) is as follows:



7.5.2. LED lighting units, systems and solutions

The production of LED lighting units has the largest share on the whole production of the Company (57.5% of the sales). In 2017, the sales increased by 4.6% as compared to the previous year. The growth trend maintains particularly in the street and commercial lighting sector. The LED lighting units are more and more demanded for export, with a share of approximately 7% in the total exports. The product range covers the following:

- Street lighting;
- Commercial premises (supermarkets, commercial galleries, gas stations, warehouses, stands, parks, showcases, advertising panels);
- Industrial premises (plants, warehouses, etc.);
- Offices;
- Public buildings (institutions, hospitals, schools);
- Residential sector.

The competitive advantage of LED lighting equipment is due to their high efficiency (over 130 lm/w), long service life and reduced maintenance costs. In addition, the LED lighting units provide high quality lighting, are environmentally friendly and can be integrated in telemanagement systems.

7.5.3. Electricity distribution and metering equipment

The whole production of meters and metering systems is targeted at the domestic market. The electricity meters are sold as such or integrated in EnergySys systems for electricity metering and telemanagement. In 2017, the sales of electricity meters and telemanagement systems represented less than 1 % of the total turnover of the Company, cumulating approximately 2 billion lei. It should be noted that during the last years, the specific production fluctuated with the dynamics of the acquisitions carried out by the electricity distribution companies. In comparison with the previous year, 2017 brought 78 % less sales. EnergySys is already a well known product on the market, being produced in its third version. The latest version of the system reflects the worldwide trends in the field of smart networks and also the requirements imposed by the energy market regulator (ANRE). The new system allows for improved quality of the services provided, better safety in operation as well as the operation information of consumers thanks to its capacity of monitoring, measuring and sending a range of complex information to the electricity distributor.

7.5.4. Plastic injection and molds

The production of plastic injection molded subassemblies and molds decreased by 14.3 % as compared to the previous year. This group of products has the second largest share (37%) of the total exports of the Company. The production of plastic injection molded subassemblies also benefits from the onsite manufacture and repair of the molds, manipulators and robots.

7.5.5. Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB Italy) was an element of continuity in the production intended for export. This group of products represents 43% of the production related turnover, their sales slightly increasing by 18.7% as compared to 2016.

7.5.6. Electricity production from renewable sources

The electricity production is regulated by ANRE; the Company has been a licensed producer since 2007. In 2017 there was no further need for investments in the 10 micro-hydro power plants (MHPs) along the Suceava River, as they had been recently modernized through an investment program completed in 2014. In 2017 the electricity production slightly exceeded the average production of the last few years. Approximately 45% of the green certificates needed to supply energy have been provided by green certificates for their own energy production.

The revenues of 2017 were higher than in the previous year as a result of an increased physical energy production and also of the fact that, starting from March 2017, the company received all the due green certificates for its current production.

Between 2013 and 2017, the number of the deferred green certificates was 11281. They are to be received in installments starting from 1 January 2018, at an estimated frequency of 1000 green certificates/year. For 2018 we estimate the production to be maintained at the same level, with a number of 25,200 green certificates.

7.5.7. Railway traffic safety components

The sales of railway traffic safety components could not repeat the performance registered in 2016, because the projects for the railway infrastructure modernization were either completed or interrupted. The future evolution of this product category broadly depends on the timetable for the modernization of the railway infrastructure.

7.5.8. Other industrial products

This category includes the production of metal works and other subassemblies from the production of 2017, the sale of these products represented a total share of 1.8%.

7.6. Main services provided

7.6.1. Electricity supply services

The electricity supply business is regulated by ANRE. The Company has been an authorized supplier since 2001; in 2013 the license was renewed for another 10 years, under the provisions of the new energy law (Law no. 123/2012). In 2017, the turnover achieved from the electricity supply business maintained at the level of the previous year, as a result of a stabilization of the customer portfolio at a size that allows a more effective risk management. Due to the prudential policies applied on medium term, and also to the customer portfolio, before the end of 2017 the company succeeded in covering the loss suffered in the first half of the year, when it faced an extreme price volatility on the electricity market.

A significant part of the need of green certificates for the whole supply customer portfolio was covered in 2017 by the certificates obtained for the electricity produced by the company's own micro-hydro power plants.

7.6.2. Rental and utility supply services

Electromagnetica administers approximately 28,800 sqm of rentable premises in Bucharest, as well as 3,500 sqm in Varteju commune, Ilfov County. At the end of 2017, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 98%, for an average rental price of 6.63 euro/square meter. For the premises in Varteju commune (Magurele), the level of occupation was 100%, for an average rental price of 1.81 euro/square meter, with a downward trend, given the large supply of modern industrial space in the area and low rental demand. As of 31 December 2017, the structure of the rentable premises by their destination was as follows:

Item no.	Destination of rentable premises at the headquarters	Share %	Destination of rentable premises in Varteju	Share %
1	Offices	53.93	Offices	6.29
2	Warehouses	20.95	Warehouses	42.00
3	Production	17.44	Production	42.73
4	Services	7.68	Services	8.98

The rental and utility supply activity had a slight increase of 1.56 % as compared to the previous year, in the context of a higher level of occupancy and the average Eur-Leu exchange rate which had a favorable evolution. The pressure on rental revenues will also manifest in the following period, as an effect of the downsizing of some tenants or the migration thereof to spaces rented at a lower medium price per square meter or with additional facilities. The office market will become increasingly competitive. The high level of delivery will exceed the office demand in Bucharest, possibly leading to a lower level of occupation, mainly in buildings which are old or located in hard-to-reach areas. These building will need investments in retrofitting or a reduction of the costs of occupation in order to remain competitive with the new generation of buildings, most of which are environmental-friendly, equipped with state-of-the-art facilities and excellent connections to public transport, especially to the underground.

7.7. New products for which additional resources are to be allocated. New product stage of development

In 2018, a focus will be set on technological improvement which will lead to lower production costs. For the production of LED lighting units we will develop semi-automatic assembling technologies, while the encapsulation of supply sources with compound material will be generalized.

We will continue the activities of research, design and manufacturing of LED lighting units and new types of charging stations for electrical vehicles, the implementation of lighting management systems. We will start to integrate our automation systems in the platform of Smart City solution. We will continue the program for the development of EnergySys, the smart system for electricity measurement.

We believe that the current technology largely covers the achievement of these goals and we only need to allocate additional assets for the design of tools and devices.

7.8. Evaluation of the sourcing activities

The prices of raw materials and other materials increased slightly, being mainly affected by the increase of the exchange rate and the higher price of the better performing, state-of-the-art components used in the LED lighting units. In the absence of domestic suppliers, the Company had to make most of its purchases from import or local dealers. As the delivery deadlines became increasingly longer, the optimization of the value of lots and inventories became more difficult and negatively impacted on the production costs.

In general, the sources for the production supplies are reliable and the objective is to maintain a minimum number of 2 suppliers / product type.

In terms of ensuring the energy resources necessary for the electricity supply activity, the price predictability was low given that both those producing from renewable sources and those producing from conventional sources sold most of their production under short-term contracts, therefore at volatile prices, to the detriment of long-term contracts. In the first months of the year the Company confronted with a rise of prices on the day-ahead market up to record values. In this context of extreme volatility, the Company adopted a balanced purchasing policy, combining purchases under long-term contracts with those on the Day Ahead Market.

7.9. Evaluation of the sale activity

7.9.1. Evolution of sales on the domestic and external market and perspectives for medium- and long-term sales

The licensed production and supply of electricity are only carried out on the domestic market. The production of meters, energy telemanagement systems, railway traffic safety components, as well as the rental services, are exclusively sold on the domestic market. Our sales on the domestic and external markets evolved differently. While exports increased by 9.3 % as compared to the previous year, the sales on the domestic market decreased by 19.5 %, except that not all the product groups registered a fall, but only those for which the Company depends on the orders from a customer or a group of customers.

Export is traditionally sustained by the low voltage electrical switchgear and a large part of the plastic injection mold production. In the following period the production of plastics will be progressively directed towards products with a higher level of complexity, a change that will also lead to a higher profitability. The LED lighting units had also a great contribution to the increased exports which in 2017 reached 14% of the total exports made by our Company. The upward trend in the exportation of LED lighting units will be maintained in 2018. We estimate that the exports will grow by 30% for these products. The Company's exports are mainly directed to the euro zone, in countries such as Italy, Germany, France, Bulgaria, but also to Serbia, Bosnia and the Republic of Moldova.

The distribution on the market of the LED lighting units and systems is mainly done directly by the Company through its specialized division from the commercial directorate. The development of a larger number of turn-key projects ensured the sale of a more products and services. One of our priorities for 2018 is to achieve a balanced structure of the production of LED lighting units by raising the lighting products for the commercial and office sectors to the level of the products for public lighting.

With respect to the assurance of medium- and long-term distribution, we mention that the average duration of rental agreements is approximately 2 years, while the average duration of electricity supply contracts is 1 year, while production is generally based on short-term orders, except for the production of meters and remote management equipment that are contracted annually. The contracts for the sale of LED lighting systems through supplier-credit are usually concluded for a period of 5-6 years.

7.9.2. Market shares and competitors

The LED lighting technology is now the main lighting solution, achieving more and more fame. Electromagnetica is the main domestic producer of products competing with those imported from other countries. Among Electromagnetica products, the most successful were the lighting units for commercial and industrial premises, as well as the street lighting units. The Company has a wide range of LED products competing on several price segments. The main competitors of the Company are Philips and Schreder (high price), Elba, Amiras, Electromax, Greentek (medium price) and Spot Vision, Urbio and Urban Lighting (low price segment).

The electricity meters and the measurement and distribution equipment are intended for the electricity distribution companies. In their plans for network modernization, they also included investments in smart metering. The short-term objective of our Company is to maintain its market share, to exploit our experience, to make the technical level of our products match our competitors and to adapt our products to customer needs. The main local manufacturers and competitors of Electromagnetica are AEM Timisoara and Elster.

Significant changes in market shares are taking place on the market of electricity supply services due to the appearance of new suppliers and the migration of consumers from one supplier to another. In the first 11 months of 2017, the share held by Electromagnetica on the competitive market was less than 1 % as shown in the ANRE report on energy market monitoring for the month of November 2017.

On the local market of railway traffic safety systems, the number of purchase orders depends on the progress of the programs for the modernization of the railway infrastructure, provided that the Company takes the necessary steps to ensure the flexibility of its production and to be able to cope with the fluctuating orders.

7.9.3. Significant dependencies of the Company on a customer or group of customers

The products with a large share at the moment, such as LED lighting units and injection molded products are targeted at a wide customer portfolio and do not depend on a certain customer or group of customers. As regards the meters and telemanagement systems, the Company depends on the traditional beneficiaries, i.e. the electricity distribution companies. The same applies to the railway traffic safety components intended for the ultimate beneficiary CFR Infrastructura. The possible difficulties encountered by these customers in the continuation or financing of their modernization programs could affect the level of orders received by the Company.

7.10. Evaluation of personnel-related issues

The high qualification level of employees enabled the Company to carry out not only production activities, but also research and development activities. In 2017, the average headcount was 577, i.e. 1% less than in the previous year, of which 33% employees with higher education and 34% with secondary education. The Company employees follow a continuing vocational training program, each of them benefiting, on average, from 44 hours/year internal and external professional training in quality, occupational health and safety, environment protection etc. In 2017 there was no case of occupational disease and no event with a major impact on human health. The management and employees interact in normal conditions.

The unionization rate is approximately 72% and there were no labor conflicts between the management and the union. More information about the social and staff policy, the policies on occupational health and safety, respect for human rights and the related risks and key performance indicators is available in the non-financial declaration of the Board of Directors for 2017, published together with this report on the Company website www.electromagnetica.ro.

7.11. Company business impact on the environment

We are fully compliant with the requirements of our Integrated Management System and continually improve its effectiveness, establishing, monitoring and reviewing our objectives. As a responsible organization, we aim to offer value to our partners and consider that Quality, Health and Safety at work, as well as the Environment are important issues integrated in the culture of our Company.

The Company holds all the environmental permits required under the law for its business. The issuer does not carry out activities with significant impact on the environment and there are no litigations related to breaches of the legislation on environmental protection.

We invite our staff, contractors and suppliers to actively participate in the fulfillment of our objectives concerning Quality of operations, Health and Safety at work and Environment, through the implementation of all the relevant regulations and programs adopted.

The Company carries out an effective environmental risk control, implementing and complying with the waste management procedures, emergency procedures, production retrofitting, designing and testing new environmental-friendly products, standardizing and optimizing products. One of the research and development objectives is to implement new energy-efficient and less polluting manufacturing technologies and launch new products with reduced environmental impact during their service life.

The production of electricity from renewable sources in micro-hydro power plants is considered an activity which has no impact on the environment.

Further information about the Company environmental policy, the risk factors and key performance indicators is available in the non-financial declaration of the Board of Directors for 2017, published together with this report on the Company website www.electromagnetica.ro.

7.12. Evaluation of the research and development activity

The research-design-development activity is carried out within three departments: the Research and Design Department, which includes the Photometry and Electromagnetic Compatibility Laboratory, the Electrical Equipment Design and Communication Department, and also the Self-Equipping Design Workshop. Considering that most of the products manufactured by Electromagnetica are products of its own conception, 11.8 % of the Company staff worked in research-design-development, a percentage that is to be reduced to approximately 10.5 % in 2018.

7.12.1. Research and Design Department

LED lighting

In 2017, the main objective in the field of applied research was to start manufacturing heaters from thermally conductive plastics of polymeric compounds filled with graphite. Two producers of such materials were certified: one in Italy and one in USA. We also succeeded in manufacturing the first lot of LED projectors injected on the machines the Company had onsite. The implementation of this technology will raise the added value, improve the design of the lamps and create the premises for the replacement of metal heaters (aluminum) with plastics heaters with thermal conductive properties. An immediate result of the application of this technology is the release of the iron sheet machining equipment (Trumpf) and assembling equipment (Tox) which had been overloaded at times when the manufacturing exceeded the machining capacity.

The lighting units portfolio reached 530 design versions of which 163 new or upgraded products were manufactured in 2017. As for the fittings designed for indoors applications, we succeeded in removing the "pixel" effect of the light source, a solution applied in the design of INDO and ATLAS units. For street lighting we made CIL ELMA, with an "open frame" supply source mounted under a disperser, using SMD technology, with protection against 6kV and 10kV overvoltage, according to SR EN 61000-4-5. Our product called ORION was upgraded for 30, 45 and 60 W and costs were reduced by 20 euro as compared to the previous versions.

Also in 2017 we continued to implement the smart lighting management systems. An adaptive lighting system in a road tunnel was built in Bosnia, where the level of lighting varies with the intensity of the light outside the tunnel. A second adaptive system for street lighting was built in Romania, where the level of lighting varies with the road traffic.

Our photometric and electromagnetic compatibility laboratory got an extension of its Renar certification Renar for four more fields: (1) luminance and contrast determination for emergency indicators, according to SR EN 60598-2-22, EN 1838; (2) determination of harmonic current emissions in electric equipment, according to SR EN 61000-3-2:2014; (3) determination of harmonic current emissions in street lamps, according to SR EN 13201-1,3 and 4-22; (4) electromagnetic compatibility in the frequency range 30MHz-300MHz, according to SR EN 55015.

In 2018, our main goal is to establish and implement technological solutions which lead to a reduction of the production cost. In this respect, we will develop semi-automatic assembling technologies to remove, either totally or partially, the manual screw assembly of dispersers on the lamps; we will generalize the encapsulation of lighting units with electrical insulating and thermally conductive compounds and we will continue the design and manufacturing of heaters and passive cooling systems from thermally conductive plastics, so as to replace the current heaters made of aluminum alloy.

Furthermore, within our main goal, we will continue the research and designing for lighting units with improved design or special purposes: chicken farms, RGB architectural lighting, stadium lighting. In 2018, we will also start integrating the street lighting management and video surveillance of road junctions into an application platform within the Smart City solution.

Charging equipment for electric vehicles

The Company's development strategy has also considered the electro mobility infrastructure as a way to grow and exploit its experience in the field of energy.

In 2017 we completed the designing and started to manufacture the first charging stations for AC electric vehicles, which ensure a maximum charging power of 22 kW/h at 32A (ELMotion Power 22). Our offer already includes several versions of charging stations, some of them being in service at customer sites. The first implemented option was the validation of charging with RFID cards. The Company is developing other billing options: validation of charging and payment by SMS, validation of charging and payment by QR code, validation of charging and payment by contactless bank card, control and communication through graphical interface.

The research and development program dedicated to charging stations takes priority in developing high power DC charging stations which ensure much shorter charging times. At the same time., the range of AC charging stations for electric vehicles will be extended with new models, in a new design, a concept demanded by the market.

7.12.2. Research and Development Department for Electrical Equipment Design and Communication

During 2017, we continued the program for the development of the remote reading and remote management system ENERGSys, a registered mark of Electromagnetica SA, in accordance with the new regulations of ANRE regarding the operation and interoperability requirements for the smart electricity measurement systems (SMI) to be installed at a large scale in Romania. Electromagnetica involved actively in the work group organized by ANRE to establish the requirements for interoperability between these systems, aiming at completing the ANRE draft order concerning the large scale SMI installation and the setting of the timetable of its implementation. ANRE draft order, which is currently subject to public debate from March to November 2017, provides the 100% installation, spread over until 2026, of the smart electric metering systems for all household customers and small economic operators connected to low voltage. ANRE Order no. 25/2018, approved in February 2018, provides the continuation of the installation of these systems during 2018, in a proportion of maximum 10% of the volume of investment for this year, while until September 2018 the new plan will be approved for the implementation at national level of the smart metering systems.

The development of EnergSys 3 system (the version launched in 2015) we took into account the latest ANRE regulations on the functional requirements and the method of evaluation of smart measurement system pilot projects, the performance of a cost-benefit analysis for each of the pilot projects approved to be installed, as well as of the provisions on the installation of such pilot projects in areas which require the execution of works for the rehabilitation of the low voltage distribution network (ANRE Order no. 145/2014 as further amended). At the same time, we took into account the need to extend the bidirectional communication interface of the system and to ensure interoperability with other systems in terms of automatic exchange of data. In this context, the continuation of the program for the development of ENERGSys system is both appropriate and essential for the fulfillment of its potential on the market.

7.12.3. Self-Equipping Design Workshop

The Self-Equipping and Maintenance Workshop manufactures, on a one-off basis, means of production for the mechanization and automation of the serial production, for supporting the technical program for new technologies and products and for ensuring the environmental and organizational conditions at work. In 2017, we optimized the manufacturing technology for the one-phase static meter, created devices for fixing screws simultaneously on the shunt, for checking meters without load, closing meter caps, pneumatic activation of the device used to cut component terminals and we built two calibration benches in order to increase the production capacity. In 2018, the Self-Equipping and Maintenance Workshop will make the means of production designed for the mechanization and automation of the technical solutions necessary for us to fulfill our main objective.

The Company's strategy attaches great importance to the research and development activities, so as to upgrade its existing products and launch new ones which would ensure its sustainable development.

7.13. Risk management objectives and policies

The risk management policies of the Company are defined in such a way that they ensure the identification, monitoring and analysis of the risks which the Company faces, establishing, at the same time, the limits of exposure. The risk management policy provides effective means of control and a favorable environment where all employees understand their roles and obligations.

Price risk

Price risk includes the risk of changes in acquisition prices, exchange rate and interest rate. Among the markets where the Company is present, the energy market has the highest level of price risk, given the volatility of prices on the Day Ahead Market and the Balancing Market, as well as the absence of long-term risk coverage mechanisms. The behavior of the electric power producers, consisting in selling as much as possible on the spot market, increases the price risk on that market. To control the price risk on the energy market, the Company took action in order to reduce its exposure within short-term contracts and externalized its balancing services.

The risk of changes in the interest rates is maintained under control by adopting an investment policy exclusively based on own funding sources, which allows for the use of credit lines only for the working capital.

The Company is exposed to an exchange rate risk because the sourcing of materials is largely based on imports. In order to limit the effect of the exchange rates, the payment calendar was correlated with that of receipts in foreign exchange, usually ensuring a cash-flow surplus. The change of the raw materials and materials prices imposed a continuous review of cost prices. To maintain some of the products profitable, the Company cooperated with the suppliers for ensuring price control and the related technological processes were improved.

Penalty risk

At the beginning of 2018, the Company was notified by the Competition Council on its Minute dated 20 December 2017, case no. 10/2017, whereby the Council decided to sanction Electromagnetica with a fine of LEI 10,024,824.88 lei representing 4.23% of its turnover for 2016, for an alleged breach of Article 5 (1) of the Competition Law and Article 101 (1) of TFEU. After the Company receives the reasoned decision of the Competition Council, it will challenge the sanction in court. This fine is taken into account in the financial result for 2017.

Dispute-related risk

The Company is involved in disputes involving small values which cannot affect its financial stability. The only exception, given the value of the claim submitted by plaintiff Hidroelectrica, is the case no. 13259/3/2015 pending before the court of appeal (Bucharest Court of Appeal), after the claim of the plaintiff was rejected by the court of first instance.

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. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency. The Company is paying more attention to the creditworthiness and financial discipline of its contractual partners. It should be mentioned that in Q1 several electricity suppliers became insolvent or applied for insolvency. Therefore, we can speak about a deterioration of the business environment and a direct manifestation of the credit risk.

Equity risk

Equity risk management aims to ensure the capacity of the Company to carry out its activity in good conditions through the optimization of the capital structure (equity and liabilities). The analysis of the capital structure is focused on the cost of capital and the risk associated to each category. To maintain an optimum capital structure and an appropriate debt ratio, in the last years the Company proposed to its shareholders an adequate dividend policy, able to secure own sources of funding. The absence of funding sources can limit the Company expansion on the market segments where the sale is supported through the commercial facilities offered.

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 decision of the general meeting of shareholders of 14 September 2017 extended the mortgage agreements in favor of the banks with which the Company has open credit lines and letters of bank guarantee within the limit of 40% of the total non-current assets, less receivables, to ensure the Company's capacity to perform its obligations in case of short-term cash deficit. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover. The liquidity and cash-flow risk management policy should be adapted to the new and more demanding commercial practices. The risk analyzed above is closely related to the sanction-related risk and the dispute-related risk, which are described below and the new and more exigent commercial practices. This risk is closely related to the risks described above.

Disaster risk

The production of electricity in low power plants without dams is subject to the risk of destruction caused by floods. Under these circumstances, the Company concluded insurance policies to protect not only the MHPs, but also its headquarters against disasters.

Political and legislative risk

The Company's activity on regulated markets, such as the electricity supply and production market, exposes the Company to a legislative risk. For instance, the changes related to taxation or employment relationships may have a significant impact upon the Company's business.

7.14. Company business prospects

7.14.1. Presentation and analysis of trends, elements, events or uncertainty factors that affect or could affect company liquidity compared to the same period of the previous year

Market trends

LED lighting technology is preferred within every large project for the modernization of lighting systems, so that the growth potential is maintained. To increase competitiveness it is necessary to improve the product quality up to a level that would allow for the extension of the warranty period and the reduction of replacement costs. Another market trend is the increase of revenues from activities relating to LED lighting unit production, for example through facility design and assembly services.

The energy market is subject to the influence of several factors. First, the producers and suppliers maintained an abnormal practice of excessively trading energy under short-term contracts, to the detriment of the long-term contracts. Secondly, under the pressure of a competition intensified by the entry of new players into the market, some of the suppliers accepted increasingly high risks in energy acquisition. This behavior showed its limits at the beginning of 2017 when, in the context of an enhanced volatility of prices on DAM, several suppliers became insolvent. A larger number of insolvency cases could affect the liquidities of the Company due to an increased claim recovery period. The connection of the electricity market with the regional market favored the alignment of the prices, but there was no impact on the volatile character of the electricity market.

There are signs of market reorientation towards a more predictable business model, a trend materialized in the appearance of some offers of energy supply at a fixed price and for a 2-year period, intended for household customers.

Commercial policy trends

The large LED lighting systems, such as those designed for street lighting in municipalities were also promoted through credit-supplier facilities, which are particularly addressed to municipalities. For 2018, given the projects financed by EU funds accessed by municipalities, we estimate there will be less need to grant such supplier-credits for public lighting. The Company will continue to sell its LED lighting systems under supplier credit facilities for medium and large scale projects, if this confers it a competitive advantage. The application of this commercial policy requires a sufficient level of available cash; therefore, the Company intends to identify additional funding sources. At the same time, the Company's commercial policy seeks to monitor the number of days established by contract for the payment of debts by customers.

The sales within the electricity supply business stabilized, in spite of the strongly fluctuating prices on the energy market. This confirms that the restructuring of the customer portfolio in the previous years was successful, resulting in a new quality portfolio of customers who adhered to the more prudent and balanced policy of our company. Even if this policy cannot grant a higher rate of return, it has the advantage of a stability which favors business continuation and good risk management.

Uncertainty factors

The worldwide accelerated dynamics of innovation in the field of LED lighting technology is an uncertainty factor as regards the pricing of new materials and components.

For the revenues from the production of energy, the main factor of uncertainty is the level of rainfall which influences the physical production of electricity in micro-hydro power plants.

The volume of purchase orders for exports is, by nature, less predictable on medium and long term.

The supply of energy is confronted with the volatility of energy prices. The increase of production capabilities in wind and solar power plants adds a factor of uncertainty with regard to the quantitative offer on the day-ahead market and increases the volatility of energy prices.

The period for receivables collection becomes uncertain in the context of an increased frequency of insolvency cases among electricity consumers or suppliers.

7.14.2. Presentation and analysis of the effects of current or expected capital expenditure on the Company financial standing

Aiming to maintain a high technical level, to raise production capacity and labor productivity, in 2017 the Company recorded purchases of technological equipment, measuring and checking devices and instrumentation and investments in delivery vans amounting to 2.56 million lei. In 2018, the investments will continue to be directed to the refitting and upgrading of the production capacities, as well as to the modernization of buildings, to which will add the projects postponed from the previous year, for the modernization of several substations and electrical installations, as well as the achievement of an increased power of 5.2 MW. The investment program is estimated at approximately 2.6 million euro, but it will be, as before, conditional on the existence of own financing sources.

7.15. Tangible assets of the Company

- 7.15.1. The production facilities of the Company are mainly located at its headquarters at 266-268 Calea Rahovei Street, district 5, Bucharest, except for the facilities producing energy from renewable sources, which are located in Suceava river basin, Radauti area, over approximately 70 km. The production facilities of the Company include technologies such as: machining, sheet metal processing (stamping, bending, cutting, milling), plastic injection, technological assembling operations, etc. They are characterized by complexity, accuracy, flexibility, automation etc.
- 7.15.2. The Company is not involved in any litigation concerning the ownership of the land pertaining to its headquarters in Bucharest, 266 - 268 Calea Rahovei Street or to its micro-hydro power plants in Radauti area.

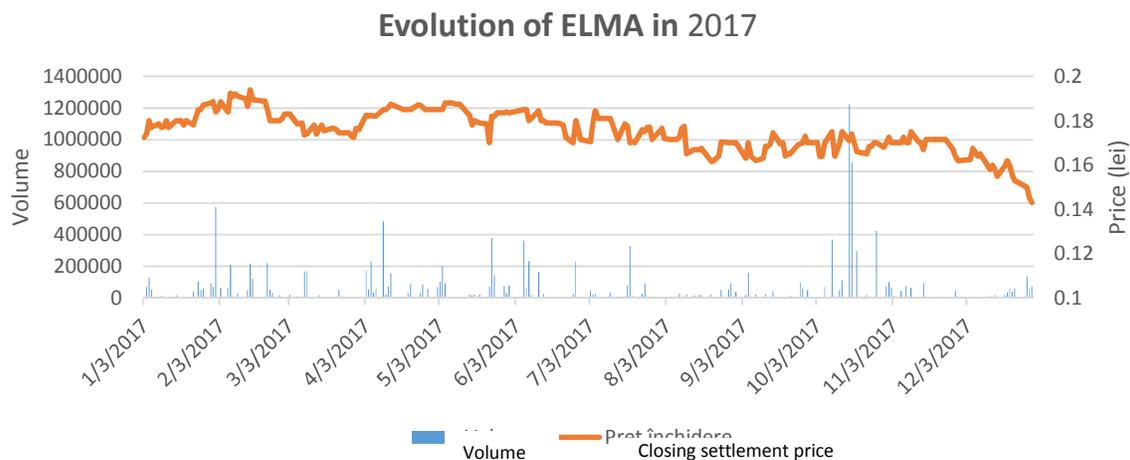
7.16. Securities market

Securities market

Electromagnetica is listed on the Bucharest Stock Exchange (BVB), for Premium Category, with the following trading characteristics:

Stock symbol: ELMA
Ordinary, nominative, dematerialized shares
Number of issued shares: 676,038,704
Nominal value: 0.1000 lei
Share capital: 67,603,870.40 lei
ISIN code ROELMAACNOR2
Bloomberg ID: BBG000CMQBR5
Reuters symbol: ROELMA.BX
Lei code: 254900MYW7D8IGEFRG38

The ELMA shares are part of the BET Plus index. Due to reduced liquidity, their weight within this index decreased to 0.19 %.



The shares traded in 2017 totaled 1.94% of the Company share capital, at an average price of 0.1765 lei/share (calculated for all market segments). The reference price varied between a minimum of 0.1430 lei and a maximum of 0.1940 lei/share. The closing settlement price at the end of 2017 was 0.1430 lei/share, 16.4% less than at the end of the previous year, corresponding to a market capitalization of 96.67 million lei.

**8. Separate financial and accounting statement as at December 31, 2017
(all amounts are expressed in RON, unless otherwise specified)**

8.1. Financial position

	December 31, 2017	December 31, 2016
ASSETS		
Non-current assets		
Property, plant and equipment	291,512,341	298,078,444
Investment property	8,642,116	7,664,546
Intangible assets	1,248,800	1,637,684
Other non-current assets	19,802,564	17,038,631
Total active imobilizate	321,205,820	324,419,304
Current assets		
Inventories	17,432,142	18,029,921
Trade receivables	40,770,090	34,516,350
Cash and cash equivalents	20,570,751	21,521,428
Financial assets at fair value through profit or loss	-	-
Other current assets	2,418,041	3,165,527
Current tax assets	-	-
Total current assets	81,182,023	77,233,226
Total assets	402,387,844	401,652,531
EQUITY AND LIABILITIES		
Equity		
Share capital	67,603,870	67,603,870
Reserves and other equity	183,473,373	181,225,908
Retained earnings	74,220,398	90,053,565
Total equity attributable to parent's shareholders	325,297,642	338,883,343
Non-controlling interests	254,989	215,061
Non-current liabilities		
Trade payables and other liabilities	1,304,836	2,784,610
Investment subsidies	4,736,743	4,899,962
Deferred tax liabilities	16,614,478	17,785,656
Total non-current liabilities	22,656,057	25,470,228
Current liabilities		
Trade payables and other liabilities	39,747,711	34,811,611
Investment subsidies	163,219	163,219
Provisions	13,744,272	1,833,135
Current income tax liabilities	523,952	275,933
Total current liabilities	54,179,155	37,083,898
Total liabilities	76,835,212	62,554,126
Total equity and liabilities	402,387,844	401,652,531

The comparative analysis of the balance sheet items revealed the following:

Property, plant and equipment have diminished as a result of the high level of depreciation of assets compared to low investment levels.

The long term non-current assets decreased of 16.2% as a result of the increase in receivables with overdue terms of more than one year, coming from sales on supplier credit.

We mention that in 2017, deferred green certificates were recorded as extrabillantiers, following the application of Ordinance 895 / 16.06.2017. That change equally influenced the long-term liabilities which decreased by 11 %.

Current assets increased by 5.1% mainly as a result of increased trade receivables.

The trade receivables increased by 18.1%. It was an assumed increase, following the continuation of our commercial policy on sales under supplier-credit facilities.

Own equity decreased by 4% due to the loss of the period.

Current liabilities increased by 46.1% on the one hand due to the increase in the balance of trade receivables and on the other hand due to the provisions for the debts of an insolvent debtor and the payment of the fine to the Competition Council. the share of the liabilities in the total assets slightly rose from 15.6% to 19% in 2017.

8.2. The consolidated profit or loss are as follows:

The total revenue was 32.25% less than in 2015, but the total expenditure decreased by 37.09%, which meant earned profit.

	12-month period ended December 31, 2017	12-month period ended December 31, 2016
Revenues	223,246,080	236,253,958
Investment income	973,361	5,545,363
Other net income	(9,811,506)	4,890,167
Changes in inventories of finished goods and work in progress	13,407,878	15,924,804
Own work capitalised	1,617,287	1,246,195
Raw materials and consumables used	(166,496,995)	(170,169,019)
Employee-related expenses	(36,406,993)	(36,459,838)
Expenses related to depreciation and impairment	(11,501,335)	(16,930,717)
Other net expenses	(28,353,511)	(32,255,671)
Financial expenses	(686,087)	(654,692)
Profit/(Loss) before tax	(14,011,821)	7,390,550
Income tax	(437,661)	(1,010,554)
Profit/(Loss) of the period	(14,449,482)	6,379,995
distributable to the parent	(14,489,410)	6,298,733
distributable to non-controlling interests	39,928	81,262

The revenues from sales to customers decreased by 5.5%. The revenues from the electricity supply business stabilized. The Company registered increase in the production of lighting units and systems, switchgear, rental activities and electricity production, while it got less revenues from the sale of meters and remote management systems, railway traffic safety components, injection molded plastic assemblies and molds.

According to a re-evaluation of the Company's assets at the end of 2016, the depreciation and amortization expense increased by 17 % in 2017 as compared to the previous year.

The loss recorded for 2017 was mainly due to the following:

- The high level of provisions and write-offs;
- The establishment of a provision of 10 million lei following the note received from the Competition Council in January 2018 concerning the sanction imposed against the Company for an alleged breach of the competition law;
- In the second semester of 2017, the electricity supply business recovered the total loss recorded in the first semester. It should be noted that in Q1 of 2017, the troubles existent in the energy market caused the purchase prices to reach record values and the Company had a significant loss. For the same reasons, one customer and debtor of our company became insolvent. For that debt the Company had made a provision of 2 million lei.
- The production business registered loss as a result of the fluctuating orders and the implicit decrease of the turnover, mainly because of the delay of some tenders for energy consumption measuring devices and railway safety equipment.

8.3. Consolidated cash flows

	12-month period ended December 31, 2017	12-month period ended December 31, 2016
<i>Net cash generated by/ (used in) operating activities</i>	<u>2,375,970</u>	<u>6,750,364</u>
<i>Net cash used in investments</i>	<u>(3,312,964)</u>	<u>(2,199,774)</u>
<i>Net cash used in financing activities</i>	<u>(13,682)</u>	<u>(39,098)</u>
<i>Net increase / (decrease) of cash and cash equivalents</i>	<u>(950,677)</u>	<u>4,511,492</u>
<i>Cash and cash equivalents at the beginning of the period</i>	<u>21,521,428</u>	<u>17,009,936</u>
<i>Cash and cash equivalents at the end of the period</i>	<u>20,570,751</u>	<u>21,521,428</u>

At the end of the period, the cash registered a slightly 4.4% decrease as compared to the beginning of the reporting period. The lower cash level can be explained by the fulfillment of some investments.

The level of the investments was above 2016. The highest weight was registered for the investment in technological equipments.

Credit lines were used to a smaller extent than in the previous year, but they had no influence on the net cash because they were used on a short term and fully reimbursed.

9. Important events occurred after the closing of the financial year

The impact of the regularization of the final number of green certificates for the electricity supply business in 2017 was not reflected in the financial statements because of the late publication of ANRE Order no. 38/28.02.2018. We believe that the regulation will not influence the Company's profit.

It should be noted that the fine of 10,024,824 lei imposed by the Competition Council, on which the Company was informed at the beginning of January, was reflected in the annual financial statements as of 31 December 2017.

On 31 January 2018, the board of directors approved a reorganization plan following the financial results of 2017. The plan mainly concerns the dismantling of some posts and the reduction of wages in some cases. The estimated financial impact is not significant for the consolidated financial statements.

10. Statement of corporate governance of parent

10.1 The relevant corporate governance code

The Company management considers that a high level of transparency as well as a good protection of investors are essential for its long-term support by its shareholders development in the long run and maximize the value of the shares.

The strict application of the relevant legislation (Law no. 31/1990 on trading companies, republished; Law no. 297/2004 on capital market, as further amended and supplemented; Law no. 24/2017 on issuers of financial instruments and market operations; Regulation no. 6/2009 on shareholders' rights; Regulation no. 1/2006 on issuers) as well as of the company's Articles of incorporation is a pre-requisite for compliance with the corporate governance requirements established at world level.

The Board of Directors decided to voluntarily apply the BVB Corporate Governance Code, except that, according to the specificity of the Company, some of the provisions thereof will be only partially. The current stage of compliance with the BVB Corporate Governance Code, the reasons for partial compliance and the measures adopted to achieve the corporate governance goals are specified in the Annex to the Statement of Corporate Governance, published with this report.

10.2. General meetings of shareholders and rights of shareholders

The rights of the shareholders and the procedure for participation in the general meetings of shareholders are described in the notice convening the general meeting and were summarized in a regulation available in the Corporate Governance section of the Company's website www.electromagnetica.ro/companie/info.

10.3. Management system

The company is currently managed under the one-tier system, by a Board of Directors. Following the Resolution adopted on 14 September 2017 by Decision of the Extraordinary General Meeting of Shareholders, the number of BoD members was reduced from 9 to 7. This system meets the current management needs and it is not necessary to implement a two-tier system.

10.4. Corporate governance structures

The main administration, management and supervisory structures of the Company are the Board of Directors, the Managers, the External Auditor and the Internal Auditor. The professional qualification and management experience of the members of the Board enables them to assess on a regular basis the aspects related to the review of the managers' activity, appointment and remuneration or internal audit. In 2017, no advisory committees, such as audit, remuneration or nomination committees, were established because not all the legal requirements for most of the members or leaders of such committees to be independent directors were met.

In order to ensure compliance with the Audit Law no. 162/2017 and EU Regulation no. 537/2014 regarding the audit, the Board of Directors decided in its meeting of 7 March 2018 to establish an Audit Committee composed of 3 members. Two of the non-executive directors were nominated to be members of the Audit Committee (Mrs Elena Calitoiu and Mrs Cristina Hodea), while the third member is to be nominated by the following Ordinary General Meeting of Shareholders, so that all the legal requirements of competence and independence would be met.

10.4.1. Board of Directors and managers

The members of the Board of Directors were elected by majority vote in the ordinary meeting of shareholders on 25 September 2015, the candidates being proposed by the shareholders. The composition of the Board of Directors reflects faithfully the holdings in capital (more than 70% of the capital is represented in the BoD). No director stood as a candidate as an independent person. There are no family relationship between the directors or members of the executive management and third parties based on which they were elected or appointed. At the time of its appointment, the Board of Directors was composed of 9 members elected for a 4-year term of office. After the death of Mr Vlad Florea, the Board of Directors appointed Mr. Balmus Dumitru (commercial manager) as interim director, starting from 28 July 2017 until the next general meeting. Given the resignation (effective on 1 September 2017) of Bucur Vasilica, one of the directors, the Board called the Extraordinary General Meeting of Shareholders for 14 September 2017 when the meeting decided to reduce the number of BoD members from 9 to 7. By resolution of the Extraordinary General Meeting of Shareholders, the 7 directors in office at that time would continue their mandates until expiry (until 18 October 2019).

	Name	Position	Term of office	Age, profession, place of work	Individual ELMA share ownership	Positions held in other listed companies
1	Scheusan Eugen	BoD Chairman	18 Oct 2019	64, engineer, Electromagnetica SA	0.2428%	-
2	Stancu Traian	BoD Member	18 Oct 2015 – 18 Oct 2019	65, engineer, Electromagnetica SA	0.0462%	-
3	Stancu Ioan	BoD Member	18 Oct 2015 – 18 Oct 2019	68, technician, Electromagnetica SA	0.0027%	-
4	Macovei Octavian	BoD Member	18 Oct 2015 – 18 Oct 2019	68, engineer, Electromagnetica SA	0%	-
5	Calitoiu Elena	BoD Member	18 Oct 2015 – 18 Oct 2019	55, engineer, SIF Oltenia	0%	SIF Oltenia – head of Directorate for Placements, Transactions and Net Asset Value Calculation; Antibiotice Iasi - director

Name	Position	Term of office	Age, profession, place of work	Individual ELMA share ownership	Positions held in other listed companies	
6	Sichigea Elena	BoD Member	18 Oct 2015 – 18 Oct 2019	63, economist, SIF Oltenia	0%	Sif Oltenia – head of business department; Mercur SA Craiova - director
7	Hodea Cristina Ioana Rodica	BoD Member	15 Mar 2016 - 18 Oct 2019	54 ,CFA, MBA, engineer, auditor "Maine va fi mai Bine" Foundation	0%	-
8	Vlad Florea	BoD Member	15 Mar 2016 – 14 July 2017	69, economist, Electromagnetica SA	1.1640%	-
9	Bucur Vasilica	BoD Member	18 Oct 2015 – 18 Oct 2019	60, legal professional, SIF Oltenia	0%	Sif Oltenia – head of legal department
10	Balmus Dumitru	BoD Member	28 Jul 2017 - 14 Sep 2017	69, economist, Electromagnetica SA	0.0001%	

The diversity of the members of the Board enables the efficient use of supplementary skills and professional experience and knowledge in various fields. Most of the members of the Board are non-executive managers, which ensure the proper balance of authority. In 2017, the Board of Directors met every month in the presence of all the Board members, whether in person or by representative. The level of the compensation for the Board members is established by decision of the general meeting of shareholders.

10.4.2. Managers

According to the provisions of the Company's Articles of Incorporation, the Chairman of the Board of Directors also exercises the function of Managing Director and duly represents the Company. The Board of Directors can delegate certain powers to one or more managers, based on mandate agreements, and establish the tasks of each manager who is subject to such delegation. The executive management is currently ensured by 5 managers, as follows:

No	Surname/ Name	Capacity	Shares owned as of 31 Dec 2017	Other positions held in listed companies
1	Scheusan Eugen	Managing Director	0.2428%	-
2	Frasineanu Ilie	Economic Manager	0.0486%	-
3	Stancu Traian	Production Manager	0.0462%	-
4	Macovei Octavian	Technical Manager	0%	-
5	Balmus Dumitru	Commercial Manager	0.0001%	-

The mandates of Mr. Frasineanu Ilie and Balmus Dumitru ceased at their request as of December 31, 2017. The Board of Directors decided to appoint Mrs. Cristina Florea as Economic Director and Mihail Stoica as Commercial Director for a term commencing on January 1, 2018 that will be valid until the revocation.

Ms. Cristina Florea (44 years) is a graduate of The Bucharest University of Economic Studies, the Faculty of Finance and Accounting and has previously held the position of Head of Accounting and Finance Department.

Mr. Mihail Stoica (44 years) is a graduate of the Polytechnic University of Bucharest, Faculty of TCM and previously worked as Sales Director, Contracting, Launch, Finished Products Manager.

The remunerations of the managers are established by decision of the Board of Directors. The gross annual remuneration and other benefits, including the remuneration approved for the management by the general shareholders' meeting, which is part of the revenue and expenditure budget, cannot exceed 5% of the value of the equity determined in the annual balance sheet. There are no arrangements whereby managers are granted compensation in case of resignation or revocation without reasonable cause.

10.4.3. Independent external auditor

Based on the power of attorney granted by the general meeting of Electromagnetica shareholders under article 9 of its decision dated 21.04.2016, the Board of Directors met on 31.05.2016 decided to sign with Deloitte Audit SRL an agreement for auditing the individual and consolidated financial statements for the financial years ended on 31 December 2016 and, respectively, 31 December 2017.

The audit company is represented by Mr. Farrukh Khan, as partner and director, while the audit mission is run by Mr. Zeno Caprariu, as audit manager.

The identification data of Deloitte Audit SRL are the following:

Tax ID: 7756924
Trade Register no.: 40/6775/1995
License issued by the Chamber of Financial Auditors of Romania: no. 25/25.06.2001
Company head office: 4-8 Nicolae Titulescu Street, 2nd floor, Deloitte area and 3rd floor, district 1, Bucharest
Tel 021/222.16.61
Fax 021/319.51.00

10.4.4. Internal control

The Board of Directors works closely with the internal auditor and the financial control service on issues relating to financial reporting, internal audit and risk management. The managerial experience and professional training of the BoD members allows them to evaluate the effectiveness of the internal audit system. The Audit Committee will assist BoD in fulfilling these duties. The Audit Committee will begin to operate as soon as its composition is completed by an independent member, by resolution of the Ordinary General Meeting of Shareholders.

The company has in place an internal control/management review system designed and implemented to enable the executive management and the Board of Directors to provide reasonable assurance that the company funds allocated to the achievement of general and specific objectives were used lawfully, regularly, efficiently, effectively and economically.

The internal control / management review system comprises both self-control and subsequent control mechanisms applied by the Budgetary Surveillance and Execution Office and the Internal Control and Audit Department; the implementation of the measures aimed at increasing its efficiency is also based on the assessment of risks.

The accounting and financial internal review is a basic component of internal control. The company applied the internal accounting and financial review to ensure the accounting management and the surveillance of the Company activity from the financial perspective.

The internal audit activity was focused on:

- ensuring compliance with applicable legislation;
- implementing the decisions made by company management;
- the smooth conduct of the company internal activity;
- the reliability of financial information;
- the efficient use of resources;
- risk prevention and control.

The control activity was carried out according to a schedule approved by the company management. Only insignificant irregularities were found, for which concrete measures were taken.

10.5. Capital structure and major shareholders

The company did not issue shares that grant special controlling rights or other types of rights. During 2017 there were no suspensions of voting rights or restrictions related to the ownership of shares. The members of the executive management are also members of the Electromagnetica Association of Shareholding Employees (PAS); this association is not controlled by a single person. At the date of 31.12.2017, the Company had 6,034 shareholders. According to the Central Securities Depository, the capital structure as of 31.12.2017 was the following:

Shareholder	Ownership	Number of shares
PAS Electromagnetica	29.6288%	200,302,763
SIF Oltenia SA	25.4006%	171,717,594
Natural persons	28.6638%	194,589,958
Legal entities	16.1867%	109,428,389
TOTAL	100.00%	676,038,704

10.6. Conflicts of interests management, transactions with stakeholders and treatment of confidential information

The directors involved in potential conflicts of interests must inform the Board and abstain from the debates and voting on those matters. Transactions with stakeholders are concluded in fair conditions and are negotiated by the management members who are not related to the stakeholders concerned. The external auditor must signal and analyze accordingly these transactions in the audit report. The company will prepare and update the list of persons that are deemed to have access to insider information. Annually, the directors and managers of the company and the other affiliated parties make solemn declarations that they are not in a situation of conflict of interests and do not carry out any competing activities.

10.7. Own shares redemption

There is no approved program for the repurchase of share or price stabilization and there is no scheme for the granting of shares to employees or management members. It should be recalled that the extraordinary general meeting of shareholders of 30 April 2015 approved, in principle, the repurchase by the Company of its own shares in order to implement a system for employee remuneration and retention, and later on a new extraordinary general meeting is to be convened to establish the number of shares, the minimum and the maximum price as well as the term of redemptions. This was not possible because of the financial situation of the Company.

10.8. Reporting share transactions by directors and other stakeholders

The company does not apply additional rules, other than those provided for by legislation, to the transactions conducted with the shares of the Company by its directors or other stakeholders. The directors are aware of the legislation on transactions with Company shares. During 2017, pursuant to Article 150 of Regulation no. 1/2006 of the National Securities Commission (CNVM), there were no reported transactions of the company's shares made by the shareholders included in the list of persons having access to inside information.

10.9. Amendments to the Articles of Incorporation

The Articles of Incorporation were updated twice. The first change was made on 28.07.2017 and it refers to the change of BoD composition after Vlad Florea's death and the appointment of Mr. Balmus Dumitru as interim director. The second change of the Articles of Incorporation was made on 14 September 2017. The number of directors was changed from 9 to 7 (Article 16.1) based on the resolution adopted by the Extraordinary General Meeting of Shareholders held on 14 September 2017.

10.10. Disclosure of corporate information

Every year, the Company establishes and publishes a financial reporting calendar. The Company regularly and permanently prepares and discloses information that is relevant for investment decisions. The staff dedicated to this activity is trained on a continuous basis, educated and instructed in issues related to the company's relation with its shareholders and the corporate governance principles. In 2017, the information was disclosed in Romanian and in English for those categories of documents envisaged by the applicable legislation. The Company encourages communication with shareholders the *Investors* section on its web page available at http://www.electromagnetica.ro/companie/info.php?ik_comp=4; for further information, investors can either call to 021.404.2132, use the fax no. 021.404.2195 or the e-mail address: juridic@electromagnetica.ro.

Board of Directors Chairman/Managing Director
Eugen Scheusan

Chief Financial Officer
Cristina Florea

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.1. All companies must have an internal regulation of the Board to include the key terms/responsibilities of the Board and the Company's key management positions and to enact, among others, the General Principles under Section A.		Partially compliant	The Company has not adopted an operating regulation for the BoD, given that the articles of incorporation clearly differentiate the powers and attributions of BoD from those of GMS and those of the managers. The BoD's responsibilities, key positions and means of operation are sufficiently detailed in the articles of incorporation and comply with the general principles of CGC of BVB under section A regarding responsibilities. The results so far indicate that this means of operation is functional.
A.2. Provisions for the management of conflicts of interest must be included in the Board's regulation. In any case, the members of the Board must notify the Board with regard to any conflicts of interest which have occurred or may occur and abstain from attending talks (even by absence, except when the absence prevents the formation of the quorum) and from voting to adopt a resolution on the matter giving rise to the respective conflict of interest.		Partially compliant	The Company has not adopted an operation regulation for BoD that contains provisions for the management of conflicts of interest. However, the Board of Directors takes measures to comply with the applicable legal provisions, and the Company's and subsidiaries' directors and managers regularly give sworn statements regarding non-competition and conflicts of interest. The adopted measures have proven to be effective for managing conflicts of interest.
A.3. The Board of Directors or the Board of Surveillance must be comprised of at least five members.	Compliant		

Annex to the Statement of Corporate Governance

<p>The provisions of BVB Corporate Governance Code</p>	<p>The Company is compliant</p>	<p>The Company is non-compliant or partially compliant</p>	<p>Reason for non-compliance / measures taken / objective achievement</p>
<p>A.4. The majority of the members of the Board of Directors must not have an executive position. At least one member of the Board of Directors or the Board of Surveillance must be independent, in the case of companies in the Standard Category. In the case of companies in the Premium Category, at least two non-executive members of the Board of Directors or the Board of Surveillance must be independent. Each independent member of the Board of Directors or Board of Surveillance, as the case may be, must file a statement at the time of their nomination for election or re-election, as well as when any change of status occurs, thereby indicating the elements based on which they consider themselves independent in terms of character and judgment and according to the following criteria:</p>			
<p>A.4.1. he/she is not a Managing Director/executive manager of the Company or of a company under the control thereof and has not held such office in the past five (5) years;</p>		Partially compliant	Of the 7 BoD members, 3 are executive directors and 4 are non-executive, but none of them declared themselves at the beginning of their mandate as being independent directors according to the criteria stated by CGC of BVB under items A.4.1- A.4.9
<p>A.4.2. he/she is not an employee of the Company or of a company under the control thereof and has not held such office in the past five (5) years;</p>			
<p>A.4.3. he/she does not and has not received additional remuneration or other advantages from the Company or a company under the control thereof, other than those pertaining to his/her capacity as non-executive director;</p>			
<p>A.4.4. he/she is not or was not an employee, or does not or did not have over the previous year a contractual relationship with a significant shareholder of the Company, such shareholder controlling more than 10% of the voting rights, or with a company controlled by the latter;</p>			

Annex to the Statement of Corporate Governance

<p>The provisions of BVB Corporate Governance Code</p>	<p>The Company is compliant</p>	<p>The Company is non-compliant or partially compliant</p>	<p>Reason for non-compliance / measures taken / objective achievement</p>
<p>A.4.5. does not and did not have over the previous year any business or professional relationship with the Company or with a company controlled by it, either directly or as client, partner, shareholder, member of the Board/Director, Managing Director /executive manager or employee of a company if, due to its substantial nature, such relationship may affect his/her objectivity;</p>			
<p>A.4.6. he/she is not and was not over the past three years an external or internal auditor or partner or remunerated associate to the current external financial auditor or to the internal auditor of the Company or of a company controlled by it;</p>			
<p>A.4.7. he/she is not a Managing Director/executive manager of another company where another Managing Director/executive manager of the Company is a non-executive director;</p>			
<p>A.4.8. he/she was not a non-executive director of the Company for a period longer than twelve years;</p>			
<p>A.4.9. he/she does not have family connections to a person who is in the situations mentioned under items A.4.1. and A.4.4.</p>			
<p>A.5. Other relatively permanent professional commitments and obligations of a Board member, including executive and non-executive positions on the Board of not-for-profit companies and institutions must be disclosed to shareholders and potential investors prior to nomination and during their mandate.</p>	<p>Compliant</p>		
<p>A.6. Any member of the Board must present to the Board information on a relationship to a shareholder holding directly or indirectly shares representing more than 5% of all voting rights. This obligation refers to any kind of relationship that may affect the position of the member with regard to matters decided by the Board.</p>	<p>Compliant</p>		

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.7. The Company must appoint a secretary of the Board, in charge of supporting the Board's activity.	Compliant		
A.8. The Statement on Corporate Governance will inform as to whether there has been an evaluation of the Board under the leadership of the Chairman or of the nomination committee and, if appropriate, it will summarize the key measures and changes derived from such evaluation. The Company must have a policy/guide on Board evaluation, containing the purpose, criteria and frequency of the evaluation process.		Partially compliant	The Board of Directors has not adopted a policy/guide on Board evaluation. On an annual basis, within the general balance meeting, the ordinary general meeting of the shareholders is required to decide on granting incentives depending on the achievement of the performance indices and in accordance to the provisions of the articles of incorporation.
A.9. The Statement on Corporate Governance must contain information regarding the number of meetings of the Board and committees throughout the past year, the attendance of directors (personally and in absentia) and a report of the Board and the committees concerning their activities.	Compliant		
A.10. The Statement on Corporate Governance must contain information regarding the exact number of independent members on the Board of Directors or on the Surveillance Board.	Compliant		
A.11. The Board of companies in the Premium Category must establish a nomination committee comprised of non-executive members, which will lead the procedure for nomination of new members on the Board and will make recommendations to the Board. The majority of the members of the nomination committee must be independent.		Partially compliant	A nomination committee composed of non-executive directors who are, as a majority, independent directors, could not be established. The Board of Directors is, as a whole, the one who nominated interim members and makes recommendations to the ordinary general meeting of the shareholders on the election of new BoD members.

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
B.1. The Board must establish an audit committee in which at least one member must be an independent non-executive director. The majority of the members, including the chairman, must have proven they hold relevant adequate qualification for the attributes and responsibilities of the committee. At least one member of the audit committee must have proven and adequate audit or accounting experience. In the case of companies in the Premium Category, the audit committee must be comprised of at least three members, and the majority of the audit committee members must be independent.		Partially compliant	The Board of Directors decided that an Audit Committee composed of 3 members should be established. Due to the impossibility of ensuring a majority of independent non-executive directors in the committee, the Board decided that the Committee should be supplemented by one independent member nominated by the next General Meeting of the Shareholders. Until the first meeting of the Audit Committee, these duties shall be fulfilled by the Board. Among the Board Members there are persons with adequate experience in auditing or accounting. These are fully capable to ensure the integrity of the financial reporting and of the internal control system.
B.2. The chairman of the audit committee must be an independent non-executive member.	Compliant		
B.3. Within its responsibilities, the audit committee must conduct an annual evaluation of the internal control system.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board.
B.4. The evaluation must take into account the effectiveness and span of the internal audit function, the adequacy of the risk management and internal control reports presented to the Board's audit committee, the timeliness and effectiveness employed by the executive management in solving deficiencies or weaknesses identified pursuant to the internal control and presenting relevant reports to the attention of the Board.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board.
B.5. The audit committee must evaluate conflicts of interest regarding the transactions of the Company and its subsidiaries with affiliated parties.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board.
B.6. The audit committee must evaluate the effectiveness of the internal control system and the risk management system.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board.

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
B.7. The audit committee must monitor the enactment of generally accepted legal standards and internal audit standards. The audit committee must receive and evaluate the reports of the internal audit team.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board.
B.8. Anytime the Code mentions reports or analyses initiated by the Audit Committee, these must be followed by periodical (at least annually) or immediate reports which must be subsequently forwarded to the Board.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board.
B.9. No shareholder may receive preferential treatment compared to other shareholders with regard to transactions and agreements concluded by the Company with the shareholders and their affiliates.	Compliant		
B.10. The Board must adopt a policy by which to ensure that any company transaction with any of the companies with which it has close ties, the value of which is equal to or greater than 5% of the Company's net assets (according to the latest financial report) is approved by the Board following a mandatory opinion of the Board's audit committee, accurately disclosed to shareholders and potential investors, to the extent that such transactions fall into the category of events subject to reporting requirements.		Partially compliant	Until the composition of the Committee is complete, these duties will be fulfilled by the Board. The Company it does enact both the legal requirements to report transactions greater than EUR 50,000 concluded with persons closely tied to the Company, and the statutory requirements for rental agreements to be analyzed and approved by the BoD. It is not necessary to have a distinct policy for disclosure of the above-mentioned transactions because the legal EUR 50,000 threshold is stricter than the CGC criterion of 5% of the Company's net assets.
B.11. Internal audits must be conducted by a structurally separate division (the internal audit department) within the Company by hiring an independent third party.	Compliant		
B.12. In order to ensure the fulfillment of the main functions of the internal audit department, it must functionally report to the Board by means of the audit committee. For administrative purposes and within the management's obligations to monitor and decrease risks, it must report directly to the Managing Director.	Compliant		

Annex to the Statement of Corporate Governance

<p>The provisions of BVB Corporate Governance Code</p>	<p>The Company is compliant</p>	<p>The Company is non-compliant or partially compliant</p>	<p>Reason for non-compliance / measures taken / objective achievement</p>
<p>C.1. The Company must publish on its website the remuneration policy and include in the annual report a statement on the implementation of the remuneration policy during the annual period subject to analysis. The remuneration policy must be expressed so that it allows the shareholders to understand the principles and arguments underlying the remuneration of the members of the Board and of the Managing Director, as well as the Management members in the dual system. It must describe the method of leading the process and of making decisions regarding remuneration, detail the elements of the remuneration of the executive management (such as salaries, annual bonuses, long-term incentives related to the value of shares, benefits in kind, pensions and others) and describe the purpose, principles and presumptions underlying each element (including the general performance criteria related to any form of variable remuneration). Moreover, the remuneration policy must indicate the duration of the executive manager's contract and the notice period mentioned in the contract, as well as the potential compensation for wrongful dismissal. The report regarding remuneration must present the implementation of the remuneration policy for persons identified in the remuneration policy during the annual period subject to analysis. Any essential change having occurred in the remuneration policy must be promptly published on the Company's website.</p>		<p>Partially compliant</p>	<p>The Company has not adopted or published on its website a remuneration policy but the notes to the annual financial statements contain information on the remuneration of directors and managers for the analyzed period. The Company's articles of incorporation provides for general limits for profit participation on the part of employees and directors, or directors and managers, taking into consideration the achieved profit criterion, that is, depending on exceeding the budgeted profit.</p>

<p>D.1. The Company must organize an Investor Relations service – thereby indicating to the public the person/persons in charge or the organizational unit. Aside from the information required by legal provisions, the Company must include on its website a section dedicated to Investor Relations, in Romanian and English, containing all relevant information that may be of interest to investors, including:</p> <p>D.1.1. Main corporate regulations: articles of incorporation, procedures concerning general meetings of shareholders;</p> <p>D.1.2. Professional resumes of the members of the Company’s management bodies, other professional commitments of the Board members, including executive and non-executive positions in boards of directors in companies or not-for-profit institutions;</p> <p>D.1.3. Current reports and periodical (quarterly, semester and annual) reports – at least those set forth under item D.8 – including current reports containing detailed information regarding non-compliance with this Code;</p> <p>D.1.4. Information regarding general meetings of shareholders: agenda and information materials; procedure for election of Board members; arguments backing candidate proposals for Board election, along with their professional resumes; shareholders’ questions with regard to items on the agenda and company’s answers, including resolutions adopted;</p> <p>D.1.5. Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading up to the acquirement or limitation of a shareholder’s rights, including deadlines and principles applied to such operations. The respective information will be published soon enough so as to allow investors to make investment decisions;</p> <p>D.1.6. The name and contact details of a person who is able to provide relevant information upon request;</p> <p>D.1.7. Company’s presentations (for instance, presentations for investors, presentations on quarterly results, etc.), financial statements (quarterly, semester, annual), audit reports and annual reports.</p>	<p>Compliant</p>	
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Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
D.2. The Company will have a policy on the annual distribution of dividends or other benefits to the shareholders, proposed by the Managing Director or by the Management and adopted by the Board, in the form of a set of guidelines which the Company intends to follow with regard to net profit distribution. The principles of the annual policy of distribution to shareholders will be published on the Company's website.		Partially compliant	The Company has not adopted and has not published on its own website a policy on the annual distribution of dividends. However, through the resolutions adopted in recent years, the Company has proven consistency and predictability in the allotment of dividends when the Company's profit allowed for it.
D.3. The Company will adopt a policy on forecasts, regardless of whether they are made public or not. The forecasts refer to quantified conclusions of surveys aiming at establishing the global impact of a number of factors concerning a future period (the so-called hypotheses): by its nature, this projection is highly uncertain, and the actual results may differ significantly from the initially presented forecasts. The policy on forecasts will establish the frequency, the envisioned period and the content of the forecasts. If published, the forecasts may be included only in the annual, semester or quarterly reports. The policy on forecasts will be published on the Company's website.		Partially compliant	The Company has not adopted a policy on forecasts to establish the frequency, period and content thereof, whether to be made public or not. Forecasts with a certain level of uncertainty are included each time in the annual reports of directors.
D.4. The rules of the general meetings of shareholders must not limit the shareholders' participation in the general meetings and the exercise of their rights. Amendments to the rules will come into force, at the earliest, starting from the following meeting of shareholders.	Compliant		
D.5. The external auditors will be present in the general meeting of shareholders when their reports are presented within such meetings.	Compliant		

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
D.6. The Board will present to the annual general meeting of shareholder a short assessment of the internal control systems and significant risk management systems, as well as opinions on certain matters subject to the decision of the general meeting.	Compliant		
D.7. Any financial specialist, consultant, expert or analyst may attend the meeting of the shareholders based on a prior invitation by the Board. Accredited journalists may also attend the general meeting of shareholders, unless the Chairman of the Board decides otherwise.		Non-compliant	The Company's bylaws do not provide for the participation in the GMS, as invited parties, of analysts, accredited journalists, experts, consultants, specialists. On a regular basis, aside from shareholders, the GMS is attended by directors, managers, auditors and other guests only when their presence is justified by the agendas containing reports or analyses drawn up by them.
D.8. The quarterly and semester financial reports will include information both in Romanian and in English with regard to the key factors influencing changes in the level of sales, operational profit, net profit and other relevant financial indices, both from one quarter to another, and from one year to another.		Partially compliant	The requirements are met, noting that the information are presented only compared to the similar period of the previous year, not from one quarter to another.
D.9. A company will organize at least two meetings/teleconferences with the analysis and investors every year. The information presented on such occasions will be published under the section "investor relations" on the Company's website on the date of the meetings/teleconferences.	Compliant		
D.10. If a company supports various forms of artistic and cultural expression, sporting activities, educational or scientific activities and considers that the impact thereof on the Company's innovative nature and competitiveness are part of its development mission and strategy, it will publish the policy on its activity in such area.		Partially compliant	The Company has not adopted and has not published a policy on supporting forms of artistic and cultural expression, sporting activities, educational or scientific activities. However, the numerous actions carried out in the past for supporting the above-mentioned areas were accompanied by press releases and promoted on the Company's website.

Declaration of the responsible persons

In accordance with the provisions of Article 65 of Law no. 24/2017 on issuers of financial instruments and market operations, we, the undersigned Eugen Scheusan – Managing Director and Cristina Florea – CFO , in our capacity of legal representative of the company Electromagnetica SA with its head office at 266-268 Calea Rahovei Street, District 5, Bucharest, registered with the Trade Register under no. J40/19/1991, tax identification number 414118, hereby declare that we take the responsibility for both the individual and consolidated financial statements for 2017, which have been prepared in accordance with the applicable accounting standards, and we certify that, to the best of our knowledge:

- a) The financial statement as of 31.12.2017, prepared in compliance with Order no. 2844/2016 of the Ministry of Public Finance approving the accounting regulations compliant with the international financial reporting standards, reflects a true and fair image of the assets, liabilities, financial position, profit and loss account of Electromagnetica SA and the companies included in the consolidation process;
- b) The annual report of the directors for 2017 was prepared in compliance with the provisions of CNVM Regulation no. 1/2006 and present true and the report includes a correct analysis of the development and performance of the company, as well as a description of the main risks and uncertainties specific to the activity carried out.

Managing Director
Eugen Scheusan

CFO
Cristina Florea