ELECTROMAGNETICA S.A.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED AT DECEMBER 31, 2020

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 Administrators' Report)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders,
ELECTROMAGNETICA S.A.

Opinion

1. We have audited the consolidated financial statements of ELECTROMAGNTICA S.A. and its subsidiaries (the Group), with registered office in 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, 2020, 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 financial statements as at December 31, 2020 are identified as follows:

• Net assets attributable to the shareholders of the Parent	RON 341,932,461
• Net loss for the financial year	RON (2,452,714)

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, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Order 2844/2016, with subsequent amendments for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union.

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"). 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 – Administrators' Consolidated Report

6. The administrators are responsible for preparation and presentation of the other information. The other information comprises the Administrators' consolidated report, but does not include the consolidated financial statements and our auditor's report thereon, nor the non-financial information declaration that is being presented in a separate report.

   Our opinion on the financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, 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, 2020, 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.

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With respect to the Administrators' report, we read it and report if this 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 with subsequent amendments.

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

a) the information included in the administrators' report for the financial year for which the financial statements have been prepared is consistent, in all material respects, with these 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 with subsequent amendments.

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the financial statements prepared as at December 31, 2020, we are required to report if we have identified a material misstatement of this Administrators' 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 Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU with subsequent amendments 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.

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- 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 28, 2020 to audit the financial statements of Electromagnetica S.A. for the financial year ended December 31, 2020. The uninterrupted total duration of our commitment is of 5 years, covering the financial years ended December 31, 2016 until December 31, 2020.

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 this report. Also, in conducting our audit, we have retained our independence from the audited entity.

- No non-audit services referred to in Article 5 (1) of EU Regulation No. 537 / 2014 were provided.

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

Zeno Căprariu, Audit Partner

For signature, please refer to the original Romanian version.

Registered in the Electronic Public Register of Financial Auditors and Audit Firms under AF 2693

On behalf of:

DELOITTE AUDIT SRL

Registered in the Electronic Public Register of Financial Auditors and Audit Firms under FA 25

The Mark Building, 84-98 and 100-102 Calea Griviței,
8th Floor and 9th Floor, District 1
Bucharest, Romania
March 24, 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2020

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

	Nota	12 month period ended December 31, 2020	12 month period ended December 31, 2019
Revenues	**19**	**284,241,630**	**257,397,078**
Investment income	**19**	294,837	359,931
Other net income and expenses	**19**	3,849,923	7,510,666
Changes in inventories of finished goods and	**19**		
work in progress	**19**	7,935,885	13,389,049
Own work capitalized	**20**	1,481,686	772,403
Raw materials and consumables used	**23**	(219,985,251)	(189,493,175)
Employee-related expenses	**20**	(33,725,428)	(39,670,742)
Expenses related to depreciation and impairment	**20**	(9,062,943)	(9,138,938)
Other expenses		(36,829,837)	(34,907,283)
Financial expenses	**21**	(750,248)	(777,887)
Profit before tax		**(2.549,747)**	**5,441,102**
Income tax	**22**	(97,034)	(532,612)
Profit of the period		**(2,452,714)**	**4,908,490**
Distributed to the parent company		(2,452,714)	4,908,490
Distributed to others		(6,290)	22,639
Other comprehensive income			
of which:			
other comprehensive income that cannot be		-	-
reclassified to profit or loss, of which:		-	-
- revaluation surplus for tangible assets		-	-
- deferred tax recognized in equity		-	-
- restatement of deferred tax for revaluation		-	
of assets written off		338	6,085
Comprehensive income for the period		**(2,458,666)**	**4,937,214**

These consolidated financial statements were approved for issuance by the management as at March 24, 2021.

Eugen Scheuşan	**Cristina Florea**
Managing Director	Economic Manager

ELECTROMAGNETICA SA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

	Note	December 31, 2020	December 31, 2019
ASSETS			
Non-current assets			
Property, plant and equipment	**4**	275,842,017	285,087,505
Investment property	**5**	15,394,199	9,445,159
Intangible assets	**6**	293,334	465,370
Other long-term non-current assets	**8**	19,804,010	24,702,276
Assets related to the rights of use	**7**	296,981	248,301
Total non-current assets		**311,630,542**	**319,948,611**
Current assets			
Inventories	**9**	13,668,013	15,968,258
Trade receivables	**10**	58,165,420	55,226,009
Cash and cash equivalents	**11**	24,487,010	26,219,735
Other current assets	**12**	1,923,621	1,971,163
Current tax assets	**22**	939,275	749,083
Total current assets		**99,183,339**	**100,134,248**
Total assets		**410,813,880**	**420,082,859**
EQUITY AND LIABILITIES			
Equity			
Share capital	**13**	67,603,870	67,603,870
Reserves and other equity	**14**	179,498,193	179,413,164
Retained earnings	**15**	94,830,398	100,076,893
Total equity attributable to company's shareholders		**341,932,461**	**347,093,926**
Non controlling interests		266,799	273,089
Total equity		**342,199,260**	**347,367,015**
Non-current liabilities			
Trade payables and other liabilities	**18**	1,168,772	1,265,003
Investment subsidies	**16**	4,247,088	4,410,306
Deferred tax liabilities	**22**	17,693,690	18,291,532
Leasing debts	**7**	209,274	187,278
Total non-current liabilities		**23,318,824**	**24,154,119**
Current liabilities			
Trade payables and other liabilities	**18**	42,836,933	46,528,679
Investment subsidies	**16**	163,219	163,219
Provisions	**17**	2,199,281	1,830,832
Current income tax liabilities	**22**	-	-
Leasing debts	**7**	96,363	38,995
Total current liabilities		**45,295,796**	**48,561,725**
Total liabilities		**68,614,620**	**72,715,844**
Total equity and liabilities		**410,813,880**	**420,082,859**

These consolidated financial statements were approved for issue by the management as at March 24, 2021.

Eugen Scheuşan	**Cristina Florea**
Managing Director	**Economic Manager**

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

	Note	12-month period ended December 31, 2020	12-month period ended December 31, 2019
Cash flows from operating activities			
Cash receipts from customers		276,081,974	264,044,018
Payments to suppliers		(215,300,890)	(193,036,378)
Payments to employees		(34,952,106)	(39,516,527)
Other operating activities		(23,180,588)	(33,829,631)
Cash generated by/ (used in) operating activities		**2,648,391**	**(2,338,518)**
Interest paid		(25,010)	(15,081)
Income tax paid		(690,662)	(2,180,472)
Net cash used in operating activities		**1,932,718**	**(4,534,071)**
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(844,660)	(954,771)
Proceeds from sale of non-current-assets		46,529	96,015
Interest received		337,598	524,977
Net cash used in investing activities		**(460,533)**	**(333,779)**
Cash flows from financing activities:			
Proceeds from loans		43,070,898	17,703,891
Cash repayments of amounts borrowed		(43,070,898)	(17,703,891)
Paid leasing		(1,250,651)	(76,401)
Interest paid		(83,838)	(13,845)
Dividends paid		(1,870,422)	(2,606,419)
Net cash used in financing activities		**(3,204,911)**	**(2,696,665)**
Net (decrease)/increase of cash and cash equivalents		**(1,732,726)**	**(7,564,515)**
Cash and cash equivalents at beginning of period	**12**	**26,219,735**	**33,784,250**
Cash and cash equivalents at end of period	**12**	**24,487,010**	**26,219,735**

These separate financial statements were approved for issue by the management as at March 24, 2021:

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

	Share capital	Retained earnings	Tangible assets revaluation reserve	Other reserves	Legal reserve	Other equity items	Total equity
Balance as of January 1, 2020	**67,603,870**	**100,076,893**	**96,320,962**	**63,389,766**	**19,702,434**	**273,089**	**347,367,015**
Comprehensive income for the period:							
Profit of the period	-	(2,452,714)	-	-	-	(6,290)	(2,459,004)
Other comprehensive income:							
Setup of legal reserve	-	(249,060)	-	139,760	109,300	-	-
Deferred tax recognized in equity	-	2,400,722	(2,400,722)	-	-	-	-
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets or written off assets	-	-	338	-	-	-	338
Transfer of the retained earnings to reserves	-	(2,202,696)	-	2,202,696	-	-	-
Total comprehensive income for the period	**-**	**(2,503,748)**	**(2,400,384)**	**2,342,456**	**109,300**	**(6,290)**	**(2,458,666)**
Transactions with shareholders, directly registered to equity							
Dividends distributed	-	(2,704,155)	-	-	-	-	(2,704,155
Other items	-	(38,592)	33,697	(38)	-	-	(4,933)
Balance as of December 31, 2020	**67,603,870**	**94,830,398**	**93,954,275**	**65,732,184**	**19,811,734**	**266,799**	**342,199,260**

These consolidated financial statements were approved for issue by the management as at March 24, 2021.

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

	Share capital	Retained earnings	Tangible assets revaluation reserve	Other reserves	Legal reserve	Other equity items	Total equity
Balance as at January 1, 2019	**67,603,870**	**96,786,264**	**99,575,840**	**61,957,912**	**19,453,374**	**250,450**	**345,627,710**
Comprehensive income for the period:							
Profit of the period	-	4,908,490	-	-	-	22,639	4,931,129
Other comprehensive income:							
Setup of legal reserve	-	-	-	(249,060)	249,060	-	-
Deferred tax recognized in equity	-	2,829,511	(2,829,511)	-	-	-	-
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets or written off assets	-	-	6,085	-	-	-	6,085
Transfer of the retained earnings to reserves	-	(1,768,356)	-	1,768,356	-	-	-
Total comprehensive income for the period	**-**	**5,969,645**	**(2,823,426)**	**1,519,296**	**249,060**	**22,639**	**4,937,214**
Transactions with shareholders, directly registered to equity							
Dividends distributed	-	(2,717,381)	-	-	-	-	(2,717,381)
Other items	-	38,365	(431,452)	(87,442)	-	-	(480,529)
Balance as at December 31, 2019	**67,603,870**	**100,076,893**	**96,320,962**	**63,389,766**	**19,702,434**	**273,089**	**347,367,015**

These consolidated financial statements were approved for issue by the management as at March 24, 2021:

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

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

1. 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, until December, 2020 when it was liquidated.

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

Afiliate	**No, of securities**	**Ownership and voting right percentage (%)**	**Value**
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			**841.408**

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

1. GENERAL INFORMATION ON THE GROUP (continued)

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

a) Electromagnetica Fire SRL

Administrative management: Maria Rogoz – Sole Director, under a 4 year mandate valid until March 26th, 2022
Executive management: Maria Rogoz – Managing Director

b) Electromagnetica Prestserv SRL

Administrative management: Gheorghe Ciobanu – Sole Director, under a 4 year mandate valid until November 3rd, 2023
Executive management: Gheorghe Ciobanu – Managing Director

c) Procetel SA

Administrative management: Antoaneta Monica Stanila – Sole Director, under a 4 year mandate valid until August 15th, 2022
Executive management: Mihai Sanda – Chief Accountant

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

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020)

- **Amendments to IFRS 3 "Business Combinations" – business definition –** adopted by EU at 21st April 2020 (in force for business combinations starting after the first annual reporting period after January, 2020 and for asset acquisition that occur on or after the beggining of that period).

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 16 "Leasing"** – renting facilities related to COVID-19 (adopted by EU in October 9, 2020 with effect starting 1st of June 2020 for the annual reporting periods on or after January 1st, 2020.

- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Group'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 amendments to the existing standards have been issued by the IASB and adopted by the EU but are not yet in force:

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" , IFRS 7 "Financial Instruments: Disclosures" , IFRS 4 "Insurance cotracts and IFRS 16 "Leasing"**- Interest Rate Benchmark Reform – Faze 2, adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

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

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 and amendments to the existing standards, 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 IAS 1 "Presentation of Financial Statements"** – presentation of the accounting policies (in force for the annual periods on or after 1st of January, 2023).

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Current and non current debts classification (in force for the annual periods on or after 1st of January, 2023).

- **Amendment to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" –** Definition of accounting provisions (in force for the annual periods on or after 1st of January, 2023).

- **Amendments to IAS 16 – "Tangible assets" –** Revenue before intended use (in force for the annual periods on or after 1st of January, 2022).

- **Amendments to IAS 37 – "Provisions, contingent liabilities and contingent assets" –** Onerous contracts – the cost of a contract (in force for the annual periods on or after 1st of January, 2022).

- **Amendments to IFRS 3 "Business Combinations"** - Reference to the conceptual frame of amendments to IFRS 3 (in force for the annual periods on or after January, 2023).

- **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 various standards due to "Improvements to IFRSs (2018-2020 cycle)"** resulting from the annual IFRS improvement project (IFRS 1, IFRS 9, IFRS 16 and IAS 41), mainly in order to eliminate inconsistencies and ambiguity (Amendments to IFRS 1, IFRS 9 and IAS 41 are applicable for annual periods beginning on or after 1 January 2022. Amendments to IFRS 16 refer to an illustrative example only, so no effective date is disclosed.)

The Group 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 Group in the period of initial application.

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

- **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.

- **Amendments to IFRS 3 "Business Combinations"** - Business Definition, issued by the IASB on October 22, 2018. Amendments have been introduced to improve the definition of a business. The amended definition emphasizes that the output of an enterprise is to provide goods and services to customers, while the previous definition focused on dividend yields, reduced costs or other economic benefits for investors and others. In addition to changing the text of the definition, the Council provided additional guidance.

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

- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 issued by the IASB on May 14, 2020. Amendments: (a) update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the one in 1989 (b) add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer apply IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities that he assumed in a business combination and (c) add to IFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

- **Amendments to IFRS 9 „Fianancial instruments", IAS 39 „Recognition and evaluation of financial instruments and IFRS 7 „Financial instruments - disclosures"** - Reform of the interest rate reference issued by the IASB on September 26, 2019.

  Changes in interest rate reform:

  a) To amend the specific hedge accounting requirements, so that entities will apply those hedge accounting requirements, assuming that the reference interest rate value on which the cash flows are based and that the cash flows in the hedging instrument will not be amended as a result of the reform of the reference interest rate;

  b) are mandatory for all relationships that are directly affected by the interest rate reference reform;

  c) are not intended to provide exemptions from any other consequences arising from the reform of the interest rate reference (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, it is necessary to discontinue hedge accounting); and

  d) requires specific disclosures about the extent to which the entities' hedging relationships are affected by changes.

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 - Investments in associates and joint ventures** - the sale or contribution of assets between the investor and a partner or joint venture was issued by the IASB on September 11, 2014 (On December 17, 2015, the IASB postponed the effective date indefinitely. The amendments show the existence of a conflict between the requirements of IAS 28 and IFRS 10 and clarify the situation of a transaction with a partner in respect to the recognition of gains or losses whether the asset is sold or capitalized.

- **Amendments to IFRS 16 "Leasing"** Covid-19 leases issued by the IASB on May 28, 2020. The amendments exempt tenants from having to consider individual leases to determine whether leases occur as a direct consequence of the covid-19 pandemic or changes in leases that allows tenants to take into account such rental concessions as if there were no rental changes. It applies to covid-19 rental concessions that reduce rental payments due until or before June 30, 2021.

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" -** Definition of material issued by the IASB on 31 October 2018. The regulation clarifies the definition of material and how it should be applied by inclusion in the definition guide.

- **Amendments to IAS 1"Presentation of Financial Statements" - Classification of current or long-term liabilities issued by the IASB on January 23, 2020.** The amendments provide a more general approach to the classification of liabilities in accordance with IAS 1 based on the contractual arrangements in effect at the reporting date. Amendments to IAS 1 issued by the IASB on July 15, 2020 postpone the effective date by one year for annual periods beginning on or after January 1, 2023.

- **Amendments to IAS 1 "Presentation of Financial Statements" -** Disclosure of accounting policies issued by the IASB on February 12, 2021. The amendments require entities to present their accounting policies with material impact, rather than their significant accounting policies, and to provide guidance and examples to help preparers decide which policies to present in the financial statements.

- **Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" -** Definition of accounting estimates issued by the IASB on 12 February 2021. The amendments focus on accounting estimates and provide guidance to distinguish between accounting policies and accounting estimates.

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

- **Amendments to IAS 16 "Tangible assets" -** Pre-use income issued by the IASB on May 14, 2020. The amendments prohibit the deduction from the cost of an item of property, plant and equipment of all proceeds from the sale of items produced while bringing that asset to the location and condition necessary for it. to be able to operate in the desired driving mode. Instead, an entity recognizes revenue from the sale of those items and the cost of producing those items, in profit or loss.

- **Amendments to IAS 37"Provisions, contingent liabilities and contingent assets" - Onerous contracts -** Cost of performing a contract issued by the IASB on 14 May 2020. The amendments specify that the "cost of performing" of a contract includes "costs directly related to the contract". Costs that relate directly to a contract may be either incremental costs for the performance of that contract, or an allocation of other costs that directly relate to the performance of the contracts.

- **Amendments to various standards due to "Improvements to IFRSs (2018-2020 cycle)",** issued by the IASB on May 14, 2020. Amendments to various standards resulting from the annual IFRS improvement project (IFRS 1, IFRS 9, IFRS 16 and IAS 41) mainly to remove inconsistencies and clarify the wording. Amendments: (a) clarify that a subsidiary that applies paragraph D16 (a) of IFRS 1 is authorized to measure cumulative translation differences using the amounts reported by its parent based on the date of transition to IFRSs (IFRS 1); (b) clarify what fees an entity includes when applying the "10 percent" test in point B3.3.6 of IFRS 9 to assess whether it is a debt arrears. An entity includes only fees paid or received between the entity (the borrower) and the creditor, including fees paid or received by the entity or the creditor on behalf of the other (IFRS 9); (c) remove from the example the illustration of the landlord's reimbursement of location improvements to resolve any potential confusion regarding the treatment of rental incentives that may arise due to the way rental incentives are illustrated (illustrative example 13 accompanying IFRS 16) ; and (d) eliminates the requirement in paragraph 22 of IAS 41 for entities to exclude the taxation of cash flows when measuring the fair value of a biological asset using a current value technique (IAS 41).

- **Amendments to References in the Conceptual Framework of IFRS** Standards issued by the IASB on March 29, 2018. Due to the fact that this conceptual framework has been revised, the IASB has updated the references to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. This was done to support the transition to the revised conceptual framework for companies that develop accounting policies using the conceptual framework when no IFRS standard is applied to a particular transaction.

3. SIGNIFICANT ACOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the reporting date, i,e, December 31, 2019, 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 Group.

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%.

3. SIGNIFICANT ACOUNTING POLICIES (continued)

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 14).

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.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are recorded in lei at the exchange rate on the date on which the 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, 2020	Exchange rate as at December 31, 2019
EUR	4.8694	4.7793
USD	3.9660	4.2608

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.

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

The Group changes an accounting policy only if the change:

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

We present below a summary of the significant accounting policies applied to all the periods presented in the financial statements, except for the changes deriving from the new standards and amendments to standards with the date of initial application 1 January 2019 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.

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

The Group 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 Group applies IAS 36 to determine whether an intangible asset measured at cost is impaired. At the end of each reporting period, the Group assesses the indicators of impairment of these assets and, if such indicators are identified, the recoverable amount of the asset is estimated and the related impairment is recorded. The impairment loss must be 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 Group established a value threshold for the recognition of a tangible asset item.

Measurement subsequent to initial recognition

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

Revaluations must be performed with sufficient regularity to ensure that the carrying amount does not differ materially from what would have been determined using fair value at the end of the reporting period.

The fair value of land and buildings is generally determined on the basis of market evidence, through an assessment by qualified professional appraisers.

The fair value of items of property, plant and equipment is generally their market value determined by valuation.

The frequency of revaluations depends on changes in the fair value of revalued property, plant and equipment. If the fair value of an asset differs materially from its carrying amount, a new revaluation is required.

3. SIGNIFICANT ACOUNTING POLICIES (continued)

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is deducted from the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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

Tangible assets	Duration (years)
Buildings	20 - 100
Technological equipment	5 - 12
Measurement, control and adjustment devices	3 - 8
Motor vehicles	4 - 8
Buildings	8 - 15

Impairment policy applied by the Group

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.

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.

3. SIGNIFICANT ACOUNTING POLICIES (continued)

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 the profit and loss account.

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.

Leasing contracts

The Group applied IFRS 16 beginning with 1 January 2019, using the retrospectively modified method, without the retreatment of comparative values for the presented previous period. This applied IFRS 16 for all the contracts existing prior to 1 January 2019, classified as leasing according to IAS 17 and IFRIC 4.

The Group chose to apply the proposed standard exception for the leasing contracts for assets with a small value (below 5000 USD).

The Group recognized assets and new debts for the operational leasing contracts for motor vehicles, rented premises and equipment. Also, it was recognized an expense with the amortization of the right of asset utilization and an expense for the interest related to the leasing debt. The right to use assets on the date of transition is equal with the leasing debt, adjusted with any amount paid in advance for leasing payments that are foreseen related to leasing's as recognized in the situation of the financial position immediately prior to the date of initial application.

On the date of commencement of the leasing contract, the Company recognizes the leasing debts, assessed at the updated value with the marginal loan rate of the leasing payments, during the duration of leasing contract. Payments include fixed payments minus any incentives to be received, variable leasing payments that are subject to an index or a rate and the amounts are expected to be paid under the form of a residual value.

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 Group 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.

3. SIGNIFICANT ACOUNTING POLICIES (continued)

Financial assets

The Group and SC Electromagnetica SA applies IFRS 9 – Financial Instruments which entered into force on 1 January 2018 and where the classification of financial assets is based on the business model of the entity and the cash-flow characteristics of the financial asset.

Classification of financial assets

According to IFRS 9 Financial Instruments, the financial assets are classified in:

1. Financial asset measure d*ata amortized cost if the two requirements below are met:*

- the financial assets held within a business model whose aim is to hold financial assets in order to collect the contractual cash-flows and
- the contractual terms of the financial asset generate, at certain dates, cash flows which are exclusively payments of the principal amount and the interest related to the principal amount owed

2. *financial asset measured at fair value through other components of the comprehensive result, if the two requirements below are met*

- the financial assets held within a business model whose aim can be reached both through the collection of the contractual cash flows and the sale of the financial assets and
- the contractual terms of the financial asset generate, at certain dates, cash flows which are exclusively payments of the principal amount and the interest related to the principal amount owed

3. *a financial asset measured at fair value through profit or loss,* except where it is measured at amortized cost in accordance with point 1 or at fair value, through other components of the comprehensive result, in accordance with point 2

Except for the trade receivables which fall under IFRS15, a financial asset or liability is initially measured at fair value, while for a financial asset or liability which is not measured at fair value through profit or loss the costs of the transaction will be added or deducted, costs which are directly attributable to the acquisition or issue of the financial asset or liability

After initial recognition, the subsequent evaluation of financial assets will be made at:
- amortized cost ;
- fair value through other components of the comprehensive result or
- fair value through profit or loss.

The financial assets include the shares held in subsidiaries, associated entities and jointly controlled entities, the loans granted to those entities, other investments held as non-corporal assets and other loans.

The Group presents its investments in subsidiaries measured at cost. The Group holds no investments in joint ventures or associated entities.

Investments in related entities

Subsidiaries are entities controlled by the Group. **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 holds 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.

3. SIGNIFICANT ACOUNTING POLICIES (continued)

Interest on loans

The interest on the loans directly attributable to the purchase, construction or manufacture of an asset with long production cycle is 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. The interest expenses are carried using the effective interest method.

In the year ended at December 31,2020, respectively at December 31, 2019 no interest expenses were capitalized in the value of the assets.

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.

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. Based on the management's estimates, adjustments are made for non-moving or slow moving inventories of production supplies and materials, as well as the inventories of unmarketable products.

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

To determine the inventory outflow cost of supplied materials, the Company uses the First-In-First-Out (FIFO) method. The standard cost is used for inventory inflow and outflow of finished products. Based on the management accounting, the actual cost of the obtained products is determined at the end of each month.

Receivables and other like assets

Beginning with 1 January 2018, the Company applied for the first time the new standard IFRS 9 *„Financial instruments”* whose result is an anticipated recognition of depreciation adjustments of debts up to the value of foreseen credit losses, calculated based on the rates of historic losses.

Receivables and other similar assets are presented at amortized cost decreased by the value adjustments.

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

3. SIGNIFICANT ACOUNTING POLICIES (continued)

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.

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

a) it is expected to be settled in the ordinary course of the Group operating cycle;
b) it is primarily held for trading;
c) it is due to be settled within 12 months after the balance sheet date; or
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****.*

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.

3. SIGNIFICANT ACOUNTING POLICIES (continued)

Revenue recognition

Revenues are measured according to IFRS 15 – Revenues from Contracts with Customers.

IFRS 15 establishes a 5-step model to record the revenues resulted from contracts with customers:

- Step 1:Identification of a contract with a customer
- Step 2:Identification of payment obligations established in the contract
- Step 3:Determination of the transaction price
- Step 4:Allocation of the transaction price for the performance obligations included in the contract
- Step 5:Recognition of revenues as the company fulfills a performance obligation

In accordance with IFRS 15, revenues are recongnized in the amount which reflects the consideration at which an entity expects to be entitled in exchange of the transfer of goods or services to a customer.

Sale of goods

In accordance with IFRS 15, the revenues will be recognized when a customer gets control of the goods. The Group delivers goods under contractual conditions based on delivery terms. The time when the customer gets control of the goods is considered to be substantially the same for most contracts of the Group, according to IFRS 15 and IAS 18.

For the contracts with customers, where the sale of goods (mainly LED lighting units, meters, railway traffic safety elements etc.) is generally estimated to be the only performance obligation, it is expected that the adoption of IFRS 15 will have no impact on the revenues and profit or loss of the Group.

The Group expects that the revenue recognition will take place at a certain moment in time, when the control of the asset is transferred to the customer, namely upon delivery of the goods.

While preparing to adopt IFRS 15, the Company considers the following:

Variable consideration

Some contracts with customers provide volume rebates, financial cuts, trade discounts or the right to return the goods for quality defects. Currently, the revenues gained from these sales are recognized based on the price specified in the contract, return net quantities and revenue decreases, trade discounts and volume rebates recorded based on accrual accounting, when a reasonable estimation of revenue adjustment can be made.

In accordance with IFRS 15, the estimation of the variable revenue is necessary to be made at the beginning of the contract. The revenues will be recognized insofar as a significant reversal of the cumulated value of the recognized revenues is unlikely to take place.

However, because the contractual periods for most contracts coincide with the calendar years for which the annual financial statements are prepared, and because the Group currently reports its annual revenues from contracts with customers net of adjustments, such as volume rebates or financial cuts, the impact on the result carried forward from the treatment of variable revenues following the adoption of IFRS 15 is not effective. At the same time, the cases of complaints for quality (rights to return) are isolated and, according to history, they are not material, so that the Group and the Company cannot make a reasonable estimation of such a reversal of revenues at the reporting date.

The group has the quality of principal in all contractual sales relationships, because it is the main provider in all revenue contracts, has the right to set the price and is exposed to inventory risks and credit risk.

In accordance with IFRS 15, the valuation will be based on the criterion of whether the Group controls the specific goods before transferring them to the end customer, rather than whether they are exposed to significant risks and rewards associated with the sale of the goods.

3. SIGNIFICANT ACOUNTING POLICIES (continued)

Impact on the carried forward result

The Group is the principal in all the sale contractual relationships, because it is the main performer in all the revenue contracts, has the right to establish the price and is exposed to stock and credit risks.

In accordance with IFRS 15, the measurement will be based on the fact that the Group controls specific goods before transferring them to the end customer rather than these are exposed to risks and significant rewards associated to the sale of goods.

Recognition of revenues from distinct performance obligations

According to some delivery terms, the Group may provide services such as transportation to a specified destination beyond the moment of transfer of the control of goods to customers. IFRS 15 requires that an entity should keep records of each of the distinct goods or services as a separate performance obligation. The freight services could fall within the definition of a distinct service, but a full understanding of the commercial terms is necessary to ensure that this is the case. A performance obligation for transportation generally satisfies the performance obligation criteria over a period of time, and the revenues will be recognized during the transfer of goods to the customer. Otherwise, the performance obligation is considered fulfilled at a certain moment in time and the revenues would be recognized when the customer receives the goods. This could lead to the recognition of part of the contractual revenues when the control of goods is transferred and the recognition in time of the part of revenues relating to freight services. There can be no separate obligation for an entity to transport its own goods (i.e. before transferring the control of goods to the customer).

The impact on the result carried forward from the treatment of transport services as distinct performance obligation, following the adoption of IFRS 15, is non-material.

Service provision

The Group provides various services as main activities (construction-installation works) and occasional activities. The revenue is measured at the fair value of the compensation received or to be received. In accordance with IFRS 15, the total consideration in the service contracts will be allocated for all the services based on their individual sale prices. The independent sale prices will be established based on the list prices at which the Group provides the respective services in separate transactions.

Performance obligations fulfilled in time

The Group transfers the control of a good or a service in time and therefore fulfills a performance obligation and recognizes revenues in time if one of the following criteria is met:

(a) the customer receives and simultaneously consumes the benefits offered through the performance by the entity as the entity is performing

(b) the performance by the entity creates or improves an asset (e.g. work in progress) which the customer controls, as the asset is being created or improved or

(c) the performance by the entity does not create an asset with alternative use for the entity, while the entity has an enforceable right to payment for the work performed until the respective date

Performance obligations fulfilled at a specific time

If the Group fulfils a performance obligation at a specific time (e.g. the supply of goods with installation or placing in service at a point in time), to determine the specific time when the customer gets the control of a promised asset and the Group fulfils a performance obligation, the stipulations regarding the transfer of control will be analyzed together with the indicators of such transfer, especially the acceptance of the asset by the customer, which can be certified by signing the commissioning protocol/startup report or the explicit acceptance for payment.

3. SIGNIFICANT ACOUNTING POLICIES (continued)

If there is an agreement on invoicing before delivery, in addition to the above conditions for a customer to get the control of a product, the following criteria must be met:

- the reason for such agreement on invoicing before delivery must be substantial (a written request from the customer)
- usually the product must be ready for the physical transfer to the customer
- the entity which delivers the product cannot have the capacity to use it or assign it to another customer

If the contract concluded with a customer contains a provision of acceptance, then the time when a customer gets the control of a good or a service will be determined according to that provision.

Assessment of the progress in fulfilling a performance obligation entirely

For each performance obligation fulfilled in time the Group recognizes the revenues in time through the assessment of the progress in fulfilling that performance obligation entirely. The purpose of such assessment is to present the transfer of control of the goods or services promised to a customer client (i.e. the fulfilment of the performance obligation by the supplier).

Reasonable progress assessments

The Group recognizes the revenues for a performance obligation fulfilled in time only if it can reasonably assess its progress in fulfilling that obligation entirely and holds the reliable information necessary to apply an adequate progress assessment method.

To assess the progress in fulfilling a future obligation, which is necessary, for example, in the contracts including a provision for placing into service or installation, the Group and the Company chose the method based on inputs, according to which revenues are recognized on the basis of inputs or of the efforts of the entity in fulfilling a performance obligation (e.g. consumed resources, number of hours worked, recorded costs, time elapsed or hours of use of machinery) as compared to the total inputs foreseen for fulfilling the respective performance obligation. If the inputs or efforts are distributed uniformly over the whole period of performance, the revenues can be recognized on a straight-line basis.

IFRS 15 requirements for recognition and assessment are also applicable to the recognition and measurement of any gains or losses resulted from the disposal of non-financial assets (such as non-current assets and intangible assets), where such disposal is not in the normal course of business. Nevertheless, upon transition, the effect of these changes are not expected to be significant for the Group.

Rental income

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 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.

3. SIGNIFICANT ACOUNTING POLICIES (continued)

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.

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

During the financial year provisions 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 Group 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.

3. SIGNIFICANT ACOUNTING POLICIES (continued)

Employee benefits

The obligations representing short-term employee benefits are not updated and are recognized in the profit and loss account as the related service is provided.

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).

Profit or loss for the period

The profit or loss is accounted for cumulatively from the beginning of the financial period.

The profit or loss for the period is determined as the difference between the income and expenses of the period.

The final profit or loss for the financial period is determined upon closure and represents the final balance of the profit and loss account.

The profit is distributed in accordance with the legal provisions in force. The amounts representing reserves set up from the profit of the current financial year, under applicable legal provisions, such as the legal reserve established under Law no. 31/1990, are recorded at the end of the current financial year. The accounting profit remaining after this distribution is carried forward at the beginning of the financial year following the period for which the annual accounts are prepared, in the carried forward result, representing the undistributed profit or the uncovered loss, from which it is distributed to other destinations decided by the general meeting of shareholders according to the law. The destinations of the balance sheet profit are accounted for after the general meeting of shareholders approves the distribution of the profit by recording the amounts representing dividends due to shareholders, reserves and other destinations, according to the law.

Earnings per share

IAS 33 – Earnings per Share stipulates that if an entity presents both consolidated and separate financial statements, it will be required to present the earnings per share only on the basis of the consolidated information. If the entity chooses to present the earnings per share based on its separate financial statements, it is required to present the information about the earnings per share only in the statement of comprehensive income.

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

The Group 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.

3. SIGNIFICANT ACOUNTING POLICIES (continued)

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

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

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 parent 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.

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 distinct 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;

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

4. PROPERTY, PLANT AND EQUIPMENT

Cost	**Land and landscaping**	**Buildings**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in progress**	**Advance for tangible assets**	**Total**
As at December 31, 2019	**154,589,917**	**115,344,527**	**33,911,929**	**4,310,286**	**1,185,609**	**-**	**309,342,268**
Inflows	459,602	41,701	3,117,660	576,266	5,079,614	301,602	9,576,445
Transfers	-	41,701	3,117,660	576,266	(3,735,627)	-	-
Outflows	-	(6,200,582)	(1,449,044)	(50,264)	(3,735,627)	-	(11,435,516)
As at December 31, 2020	**155,049,519**	**109,185,646**	**35,580,545**	**4,836,288**	**2,540,147**	**301,602**	**307,483,196**

Accumulated depreciation	**Land and landscaping**	**Buildings**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in progress**	**Advance for tangible assets**	**Total**
As at December 31, 2019	**328,881**	**4,115,098**	**17,753,590**	**2,057,194**	**-**	**-**	**24,254,764**
Depreciation for the year	-	3,809,750	3,664,972	536,502	-	-	8,011,225
Accumulated depreciation for outflows	-	(406,461)	(1,167,713)	(65,539)	-	-	(1,639,713)
As at December 31, 2020	**328,881**	**7,518,387**	**20,208,283**	**2,546,782**	**-**	**-**	**30,626,275**

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment allowances	Land and landscaping	Buildings	Plant and machinery	Other tangible assets	Tangible assets –work in progress	Advance for tangible assets	Total
As at December 31, 2019	**-**	**-**	**-**	**-**	**-**	-	**-**
Allowances for impairment recognized in profit or loss	-	893,116	121,788	-	-	-	1,014,904
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	-	-	-
As at December 31, 2020	**-**	**893,116**	**121,788**	**-**	**-**	-	**1,014,904**
Net book value							
As at December 31, 2019	**154,261,036**	**111,229,429**	**16,158,339**	**2,253,092**	**1,185,609**	**-**	**285,087,505**
As at December 31, 2020	**154,720,638**	**100,774,143**	**15,207,907**	**2,308,131**	**2,529,596**	**301,602**	**275,842,017**

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

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, 2018	**154,589,917**	**115,281,150**	**33,737,246**	**3,811,676**	**1,088,185**	**308,508,174**
Inflows	-	63,377	905,046	749,346	1,641,697	3,359,466
Transfer	-	63,377	841,190	639,706	(1,544,273)	-
Outflows	-	-	(730,363)	(250,736)	(1,544,273)	(2,525,372)
As at December 31, 2019	**154,589,917**	**115,344,527**	**33,911,929**	**4,310,286**	**1,185,609**	**309,342,268**

Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2018	**328,881**	**-**	**14,223,866**	**1,652,340**	**-**	**16,205,088**
Depreciation for the year	-	4,115,098	4,005,350	440,998	-	8,561,446
Accumulated depreciation for outflows	-	-	(475,626)	(36,144)	-	(511,770)
As at December 31, 2019	**328,881**	**4,115,098**	**17,753,590**	**2,057,194**	**-**	**24,254,764**
La 31 decembrie 2018	**154,261,036**	**115,281,150**	**19,513,380**	**2,159,336**	**1,088,185**	**292,303,086**
La 31 decembrie 2019	**154,261,036**	**111,229,429**	**16,158,339**	**2,253,092**	**1,185,609**	**285,087,505**

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Tangible assets are represented by upgrades of the headquarters of the company as well as the acquisition of technological equipment. Outflows of assets represent write-downs due to sale and disposal.

Name of asset	Net book value as at December 31, 2020	Net book value as at December 31, 2019
- Calea Rahovei 266-268 Sector 5 Bucharest		
- Calea Rahovei 266-268 Sector 5 Bucharest Real estate (cadastral parcels no. 16)	25,971,259	26,354,492
- Calea Rahovei 266-268 Sector 5 Bucharest	33,496,145	33,496,145
- Land Calea Rahovei, 242 = 2.157 m2	5,160,797	5,160,797
- Small hydropower plants (land+industrial and urban buildings)	47,265,912	48,706,930

The tangible assets also include assets acquired through a 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, 2020 is RON 10.523.945 out of which RON 4.410.306 represents grant. The net carrying amount of the investment at December 31, 2019 was RON 10.831.211 out of which RON 4.573.525 represents grant.

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.

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).

Information on the fair value hierarchy as at December 31, 2020 and December 31, 2019 is as follows:

	Level 1	Level 2	Level 3	Fair value at December 31, 2020
Lands and land improvements	-	-	154,720,638	154,720,638
Constructions	-	-	100,774,143	100,774,143

	Level 1	Level 2	Level 3	Fair value at December 31, 2019
Lands and land improvements	-	-	154,261,036	154,261,036
Constructions	-	-	111,229,429	111,229,429

During 2020 and 2019, there were no transfers between levels related to fair value

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

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.

As at December 31, 2019 the investment property is structured as follows:

	2020	2019
Opening balance	**9,445,159**	**8,433,921**
Inflows, of which:	6,263,786	1,082,787
fair value valuation	909,909	1,082,787
transfer	3,395,501	-
Outflows, of which:	(314,746)	(71,549)
fair value valuation	(314,746)	(71,549)
transfer	-	-
Closing balance	**15,394,199**	**9,445,159**

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

Information on the fair value hierarchy as at December 31, 2020 and December 31, 2019:

	Level 1	Level 2	Level 3	Fair value at December 31, 2020
Investment property	-	-	15,394,199	15,394,199

	Level 1	Level 2	Level 3	Fair value at December 31, 2019
Investment property	-	-	9,445,159	9,445,159

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

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 decrease of intangible assets is mainly due to the amortization of some licenses.

Intangible assets as at December 31, 2020 are as follows:

Cost	**Concessions patents licenses**	**Other intangible assets**	**Intangible assets in progress**	**Total**
As at December 31, 2019	**1,163,759**	**2,707,434**	**65,539**	**3,936,732**
Inflows	60,344	454	49,218	110,016
Outflows	(43,485)	(95,201)	(57,553)	(196,239)
As at December 31, 2020	**1,180,618**	**2,612,687**	**57,204**	**3,850,509**
Accumulated amortization				
As at December 31, 2019	**824,888**	**2,646,474**	**-**	**3,471,362**
Amortization for the year	163,471	61,027	-	224,498
Accumulated amortization for outflows	(43,485)	(95,200)	-	(138,685)
As at December 31, 2020	**944,874**	**2,612,301**	**-**	**3,557,175**
Net book value				
As at December 31, 2019	**338,871**	**60,960**	**65,539**	**465,370**
As at December 31, 2020	**235,744**	**386**	**57,204**	**293,334**

Intangible assets as at December 31, 2019 are as follows:

Cost	**Concessions patents licenses**	**Other intangible assets**	**Intangible assets in progress**	**Total**
As at December 31, 2018	**902,855**	**2,711,909**	**78,313**	**3,693,077**
Inflows	263,733	-	246,896	506,154
Outflows	(2,829)	(4,475)	(259,670)	262,499
As at December 31, 2019	**1,163,759**	**2,707,434**	**65,539**	**3,936,732**
Amortizare cumulată				
As at December 31, 2018	**663,532**	**2,325,104**	**-**	**2,988,636**
Amortization for the year	161,436	321,370	-	482,806
Accumulated amortization for outflows	(80)	-	-	(80)
As at December 31, 2019	**824,888**	**2,646,474**	**-**	**3,471,362**
Net book value				
As at December 31, 2018	**239,323**	**386,805**	**78,313**	**704,441**
As at December 31, 2019	**338,871**	**60,960**	**65,539**	**465,370**

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

7. ASSETS RELATING TO THE RIGHTS OF USE

As of December 31, 2020, the Group recognizes assets related to the use rights in the amount of RON 296,981 and of the lease debts amounting to RON 305,637 related to the previous operational leasing contracts, of which the short term debts amounting to RON 96,363 RON and long-term debts worth RON 209,274 RON.

	The balance at January 1,2020	Inflows	Outflows	The balance at December 31,2020
Right of use	281,970	131,080	-	413,050
of which:				
Right of use of vehicles	281,970	131,080	-	413,050
Debt from Leasing	226,274	131,080	(51,717)	305,637
Recognized depreciation	33,669	82,400	-	116,069
Interest expense	13,845	13,232	-	-

Net asset value at December 31, 2020: RON 296,981

Out of which:

Net value of the right to use vehicles: RON 296,981
The remaining amount of the debts as of December 31, 2020: RON 305,637

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, 2020	December 31, 2019
Performance guarantees granted to customers	1,668,567	1,612,182
Trade receivables scheduled on the long-term	19,789,266	24,901,807
Adjustment trade receivables at present value	(2,097,083)	(1,830,235)
Other	443,260	18,522
Total	**19,804,010**	**24,702,276**

Trade receivables scheduled on the long-term in net value of RON 19,789,266 as at December 31, 2020 have been discounted at present value, and the effect of the discount is RON 2,097,083. The short-term portion is recognized in trade receivables (Note 10).

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

9. INVENTORIES

	December 31, 2020	December 31, 2019
Raw materials	6,889,170	7,636,015
Consumables	1,917,971	1,770,534
Finished goods	3,621,418	3,243,966
Work in progress	1,699,973	3,170,253
Other inventories	1,357,853	1,950,474
Allowances for impairment of inventories	(1,818,372)	(1,802,984)
Total	**13,668,013**	**15,968,258**

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:

	2020	2019
Balance at the beginning of period	**1,802,984**	**1,744,374**
Increase depreciation adjustments	1,045,050	1,253,817
Decrease depreciation adjustment	(1,029,662)	(1,195,207)
Balance at the end of period	**1,818,372**	**1,802,984**

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.

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, 2020	December 31, 2019
Internal trade receivables*	54,668,719	54,798,360
External trade receivables	8,031,013	5,384,968
Estimated trade receivables	1,165,173	605,325
Adjustment of internal trade receivables at present value	(790,431)	(614,177)
Impairment of trade receivables	(4,909,054)	(4,948,467)
Net trade receivables	**58,165,420**	**55,226,009**

Internal trade receivables include performance guarantees granted to customers with maturity under one year. As at December 31, 2020 they amounted to RON 684,434 (December 31, 2019: RON 264,224).

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

10. 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 was RON 2,887,513, of which RON 790,430 due in one year and RON 2.097.083, due in more than one year. The portion over one year is recognized in other fixed assets (Note 8).

The balance of trade receivables from customers as at December 31, 2020 is RON 49,831 (December 31, 2019: RON 484,456) 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:

	2020	2019
Balance at the beginning of period	**4,948,467**	**4,314,458**
Increases of impairment allowances	759,364	1,100,670
Decreases of impairment allowances	(798,777)	(466,661)
Balance at the end of period	**4,909,054**	**4,948,467**

Doubtful accounts receivables or under litigation procedures are in amount of RON 4,909,054 as at December 31, 2020 (December 31, 2019: RON 4,948,467).

The allowance for trade receivables recorded refers to amounts not collected from doubtful accounts or customers under litigation procedures and for which a risk of default was estimated according to the policy adopted by the Company.

The accounts receivable collection period has decreased in 2020 to 95 days, compared to 111 days in 2019.

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

	Gross value as at December 31, 2020	Provision as at December 31, 2020	Gross value as at December 31, 2019	Provision as at December 31, 2019
Outstanding	41,243,701	-	44,397,268	-
Overdue between 1 – 30 days	9,058,359	-	5,997,123	-
Overdue between 31 – 90 days	2,469,064	-	791,361	-
Overdue between 90 – 180 days	995,204	-	1,449,893	-
Overdue between 180 – 365 days	1,339,762	-	1,798,922	-
More than 1 year	7,968,384	(4,909,054)	5,739,909	(4,948,467)
TOTAL	**63,074,474**	**(4,909,054)**	**60,174,476**	**(4,948,467)**

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

11 OTHER CURRENT ASSETS

	December 31, 2020	December 31, 2019
Debtors	31,926	373,525
Prepaid expenses	906,301	929,144
Debtor suppliers	138,192	194,467
Other assets	847,202	474,027
Total	**1,923,621**	**1,971,163**

The accrued expenses of RON 906,301 mainly consist of rent paid in advance, insurance premiums and various subscriptions.

Other assets also include the value of the VAT non-chargeable in amount of RON 193,886 (as at December 31, 2019: RON 112,954).

12 CASH AND CASH EQUIVALENTS

	December 31, 2020	December 31, 2019
Petty cash	14,748	28,806
Current accounts with banks	24,471,752	26,189,782
Cash equivalents	510	1,147
Total	**24,487,010**	**26,219,735**

	December 31, 2020	December 31, 2019
Restricted cash	81,748	80,302
Total	**81,748**	**80,302**

Restricted cash is used to guarantee collateral.

13 SHARE CAPITAL

For the mother-company, 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, 2020 is the following, according to the Central Depositary Register:

	December 31, 2020		December 31, 2019	
SHAREHOLDER	**No, of shares**	**%**	**No, of shares**	**%**
Asociaţia PAS	171,084,540	25.3069	171,084,540	25.3069
SIF Oltenia SA	176,717,594	26.1402	176,717,594	26.1402
Natural persons	255,182,254	37.7467	249,631,166	36.9256
Legal persons	73,054,316	10.8062	78,605,404	11.6274
Total	**676,038,704**	**100**	**676,038,704**	**100**

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

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

14 RESERVES

Legal reserves	2020	2019
Balance as the beginning of the period	**19,702,434**	**19,453,374**
Increases of legal reserves	109,300	249,060
Decreases of legal reserves	-	-
Balance as the end of the period*	**19,811,734**	**19,702,434**

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 8,649,876 at December 31, 2020 (December 31, 2019: RON 8,649,877).

Revaluation reserves are in amount of RON 93,954,274 as at December 31, 2020.

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.

	2020	2019
Balance as the beginning of the period	**96,320,962**	**99,575,840**
Increases	-	-
Reductions	(2,367,026)	(3,260,963)
Other elements	338	6085
Balance as the end of the period	**93,954,274**	**96,320,962**

At December 31, 2020 the Group has **other reserves** amounting to RON 65,732,184 of which reserves for own sources of founding represent 98%.

	2020	2019
Balance as the beginning of the period	**63,389,766**	**61,957,912**
Increases	2,342,456	1,519,296
Reductions	(38)	(87,442)
Balance as the end of the period	**65,732,184**	**63,389,766**

15 RETAINED EARNINGS

As at December 31, 2020, the retained earnings arising from the transfer of reserves from revaluation related to depreciated or decommissioned assets was in amount of RON 2,339,791.

Within the OMS Electromagnetica from April 28th, 2020, the mother-Company approved the allocation of RON 2,704,155 for the payment of dividends for the year 2019 (respectively 0.004 lei / share).The difference of RON 22,785 represents dividends paid by Procetel to other shareholders than Electomagnetica S.A.

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

16 INVESTMENT SUBSIDIES

	Total	Within one year	In more than one year
Investment subsidies as at December 31, 2020	4,410,306	163,219	4,247,087

	Total	Within one year	In more than one year
Investment subsidies as at December 31, 2019	4,573,525	163,219	4,410,306

In 2012, the Parent 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.

17 PROVISIONS

Description	Balance January 01,2020	Inflows (set-up)	Outflows (reversals)	Balance December 31,2020
Provisions for performance guarantees to customers	1,148,682	-	(28,682)	1,120,000
Provisions for risks and charges	56,130	-	(24,690)	31,440
Provision for employees' benefits	626,020	1,914,848	(1,493,027)	1,005,451
TOTAL	**1,830,832**	**1,914,848**	**(1,546,399)**	**2,199,281**

The Parent 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.

18 TRADE AND OTHER PAYABLES

	December 31, 2020	December 31, 2019
Trade payables		
Internal trade payables	6,565,553	8,827,934
External trade payables	3,448,163	2,836,983
Estimated trade payables	15,437,277	15,388,430
Other current payables		
Advances received from customers	789,218	966,937
Income in advance	22,756	1,847,267
Other payables	13,535,637	13,072,053
Total trade and other payables	**42,836,933**	**46,528,679**

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.

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

18 DATORII COMERCIALE ŞI ALTE DATORII (continuare)

The Group does not have significant outstanding trade payables.

The Group does not have overdue liabilities to employees and the state budget. The amounts presented represent liabilities for December 2020, were paid on the due date, in January 2021.

The Group did not have long-term loans at December 31, 2020.

The Company has several loan agreements approved as at December 31, 2020. Their status is presented in Note 26 to these financial statements. There were no outstanding liabilities related to loans as at December 31, 2020 and as at December 31, 2019.

Other payables include guarantees received from tenants, VAT to be paid, other taxes and the fine in amount of RON 9,021,308. For this amount the Parent Company requested ANAF the suspension according to Art. 235 of the Fiscal Procedure Code.

The guarantees received as at December 31, 2019 amount to RON 3,03,.983 and will be settled according to the contractual terms.

	Total	Within one year	In more than one year
Guarantees received 2020	3,039,983	1,871,211	1,168,772
Guarantees received 2019	2,740,439	1,475,436	1,265,003

19 INCOME

	2020	2019
Income	**284,241,630**	**257,397,078**
- Income from sold production	75,054,805	79,457,674
- Rental income	17,854,867	16,322,409
- Income from sale of goods	191,331,958	161,616,995
Investment income	**294,837**	**359,931**
- Interest income	294,837	359,931
- Income from dividends	-	-
Variation in inventories of finished goods and work in progress	7,935,885	13,389,049
Own work capitalized	1,481,686	772,403
Other income / expenses	**3,849,923**	**7,510,666**
- Income from subsidies	3,491,118	4,535,967
- Net provisions	(926,393)	1,414,906
- Net foreign exchange difference	63,299	324,536
- Other income	1,221,899	1,235,257
Net income	**297,803,961**	**279,429,127**

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.

Net income from valuation at fair value of investment property can be found in Other income.

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

20 EXPENSES

	2020	2019
Expenses related to materials	**219,985,251**	**189,493,175**
- Raw materials and consumables	43,559,276	48,618,671
- Goods purchased for resale	173,923,537	138,688,710
- Electricity, heating and water	2,502,438	2,185,794
Employee-related expenses	**33,725,428**	**39,670,742**
- Salaries	20,310,870	21,861,475
- Other employee-related expenses	13,414,558	17,809,267
Other expenses	**36,829,837**	**34,907,283**
Post	258,352	226,552
Maintenance expenses	478,443	463,500
Rentals	616,960	327,415
Advertisement and entertainment	151,130	231,218
Insurance	519,611	503,378
Transport and travel	1,037,829	1,214,602
Subcontracted work	7,852,788	7,884,154
Other taxes	1,876,250	1,609,691
Consultants and collaborators	651,877	1,012,352
Costs of green certificates	8,859,234	11,686,188
Other operating expenses	14,527,363	9,748,233
Expenses related to depreciation and impairment	**9,062,943**	**9,138,938**
- Depreciation	8,048,039	9,138,938
- Net impairment	1,014,904	-
Total expenses	**299,603,459**	**273,210,138**

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

21 FINANCIAL EXPENSES

	2020	2019
Interest expenses	30,301	26,983
Bank charges	719,947	750,904
Total financial expenses	**750,248**	**777,887**

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

22 INCOME TAX

Income tax recognized through profit or loss.

	December 31, 2020	December 31, 2019
Current income tax		
Current income tax expenses	500,470	1,407,132
Deferred income tax		
Deferred income tax income	(597,504)	(874,520)
	(97,034)	**532,612**

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

Caption	Year ended December 31, 2020	Year ended December 31, 2019
Net accounting (loss)/profit	**(2,452,714)**	**4,908,490**
Deductions	(6,482,490)	(5,925,292)
Non-taxable income	(12,789,215)	(7,407,647)
Non-deductible expenses	18,572,019	17,281,524
Taxable (loss)/profit	(3,152,400)	8,857,075
Tax loss from previous years	-	-
Current income tax	504,384	1,417,132
Income tax reduction	(3,914)	(10,000)
Income tax due at end of period	**500,470**	**1,407,132**

As at December 31, 2020, the current income tax due is RON 939,275 (as at December 31, 2019: RON 749,083).

At the date of preparation of this report, the parent company has an ANAF control in progress regarding the analysis of the profit tax and the analysis of transactions under VAT, a control that has no preliminary amounts to affect the overall results presented so far.

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

	Opening balance	Through profit or loss	Through other comprehensive income	Closing balance
Property, plant and equipment	19,864,777	(471,641)	(338)	19,392,798
Receivables	(391,106)	(70,896)	-	(462,002)
Impairment of receivables	(793,498)	8,205	-	(785,293)
Impairment of inventories	(288,478)	(2,462)	-	(290,940)
Employee-related benefits	(100,164)	(60,710)	-	(160,873)
TOTAL	**18,291,531**	**(597,504)**	**(338)**	**17,693,690**

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.

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

23 AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	December 31, 2020	December 31, 2019
Group	455	518
Parent Company	387	454

The expenses incurred for salaries and related taxed in the years of 2020 and 2019 are as follows:

	2020	2019
Expenses related to salaries	20,310,870	21,861,475
of witch the Parent Company	18,184,409	19,866,875
Others	13,414,558	17,809,267
of witch the Parent Company	12,305,685	16,628,012
Total	**33,725,428**	**39,670,742**
of witch the Parent Company	30,490,094	36,494,887

The Company 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, 2020 and December 31, 2019, 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 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.

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

25 INFORMATION ON SEGMENTS OF ACTIVITY (continued)

2020	Unlicensed activity	% Total Company	Licensed activity	% Total Company	Total Company
Net profit	(3,404,024)	138.79	951,311	-38.79	(2,452,714)
Total assets	306,308,579	75.59	104,505,301	25.41	410,813,880
Total liabilities	37,337,168	54.73	31,277,452	45.27	68,614,620
Customer revenue	91,752,769	32.28	192,488,861	67.72	284,241,630
Interest income	336,111	100	-	-	336,111
Impairment and depreciation	6,084,669	67.14	2,978,274	32.86	9,062,943

2019	Unlicensed activity	% Total Company	Licensed activity	% Total Company	Total Company
Net profit	(2,354,875)	n/a	7,263,365	n/a	4,908,490
Total assets	345,651,513	82.04	75,663,124	17.96	421,314,637
Total liabilities	52,798,320	71.43	21,122,020	28.57	73,920,340
Customer revenue	69,183,791	26.88	188,213,287	73.12	257,397,078
Interest income	430,679	100	-	-	430,679
Impairment and depreciation	7,209,486	78.89	1,929,452	21.11	9,138,938

Main products and production structure

The Group 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:

LED lighting units, systems and solutions

The product range covers almost all areas, both for public authorities (street or ornamental lighting for monuments) and companies (commercial and industrial spaces, offices) and for individuals (lighting fixtures for domestic use).

The competitive advantage of LED lighting equipment is due to the high efficiency (over 160 lm / w), the long operating time (minimum 100,000 hours) as well as the high color rendering index (minimum 85%). In addition, LED luminaires provide quality light, are environmentally friendly and allow integration into telemanagement systems.

The production of LED lighting units has the largest share in the whole merchandise production of the Company (next to the electric car charging stations), with a total of 57.27% of sales value. In 2020, the sales for this segment represented an element of stability and continuity beign almost at the same level as 2019.

Electric car charging stations

In recent years, the hybrid and electric vehicle market has experienced an accelerated development both in Europe and in Romania. "Green" cars, the electric ones along with hybrids, registered in our country, an increase in registrations (new cars) of 9% in the first nine months of 2020, according to the Association of Automobile Manufacturers and Importers (APIA), at a volume of almost 5,400 units. Of these, exclusively electric cars accelerated the most, growing by 41%.

Under the brand ELMotion, Electromagnetica was among the first local companies which designed and built such stations, starting with the year 2017.

In 2020, ou company finalized the product **Fast charging station SIVE DC 50kw/AC 22kw**, which will allow simultaneous charging for 2 cars, out of which one has a 50kw pwer.

25 INFORMATION ON SEGMENTS OF ACTIVITY (continued)

In order to support the owners of electric/hybrid car we have also developed the **ELMotion software**, which allows the identification of electric car charging stations and their availability at a national level. The application can be installed on mobile phones in Google Play and AppStore.

Plastic injection and molds

Electromagnetica benefits from a wide range of technologies, which enables the Company to manufacture plastic injection molded subassemblies for both the internal market and export. The Company currently owns 24 machines, the most part of the manufactured products being represented by auto parts.

The production of plastic injection molded subassemblies and molds increased by 44.5% as compared to the previous year. This group of products has the second largest share of the total exports of the Company, i.e. 22.6% of total exports. The production of plastic injection molded subassemblies also benefits from the onsite manufacture and repair of the molds.

Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB) was an element of continuity and stability in the production intended for export, being a range of products that slightly decreased in 2020 (-9.3%). Electrical switchgear represented in 2020 approximately 59% of the total exports.

Most of this activity is automatized and robotized.

Electricity production from renewable sources

The electricity production is regulated by ANRE; the Company has been a licensed producer since 2007. The company own 10 micro-hydro power plants (MHPs) along the Suceava River. In 2020, the energy production from these micro-hydropower plants registered a decrease of 18.7% compared to the previous year, due to a deficient rainfall regime, standing at 11,151 MWh.

Approximately 30% of the green certificates necessary for energy supply were ensured by the green certificates related to the own energy production. The number of green certificates granted in 2020 was of 25.001 certificates

Railway traffic safety components

The sales of railway traffic safety components decreased by 9% compared to 2019, being the activity with the highest growth, in the context of increased orders from renowned companies (such as ALSTOM, SIEMENS) that are working on the maintenance and modernization of the railway infrastructure. The future evolution of this product category broadly depends on the timetable for the modernization of the railway infrastructure.

Electricity supply service

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).

A particular emphasis was laid on risk management by the precontractual review of the consumer, as well as by sustained actions in relation to customers that exceeded the payment deadline (including by disconnection notifications) so that the overdue amounts were insignificant .

A significant part of the need of green certificates for the whole supply customer portfolio was covered in 2020 by the certificates obtained for the electricity produced by the company's own micro-hydro power plants.

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

25 INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Services for renting and providing utilities

Electromagnetica administers approximately 33,000 sqm of rentable premises in Bucharest, as well as 3,500 sqm in Varteju commune, Ilfov County. At the end of 2019, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 94.43%. For the premises in Varteju commune (Magurele), the level of occupation was 94.43%.

The rental and utility supply activity increased by 8.9 % as compared to the previous year, in the context of a higher rented surface and the average Eur-Leu exchange rate which had a favorable evolution as compared to 2019. The rentable premises for offices in favor of service provision or production premises and the office tenants have remained relatively the same.

26 RISK MANAGEMENT

The Group 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 Group 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 Group monitors capital based on the debt ratio. This indicator is calculated as the ratio of the net debt and the total capital employed. The net debt is calculated as the sum of the total loans, total suppliers and other liabilities (as presented in the statement of the financial position) less the cash and cash equivalents. The total capital employed is determined as the sum of the net debt and equity (as presented in the financial position).

The debt ratio as at December 31, 2020 was as follows:

	December 31, 2020	December 31, 2019
Total loans (lease debts IFRS 16)	305,637	226,273
Suppliers and other liabilities	43,317,218	46,528,679
Less: Cash and cash equivalents	(24,487,010)	(26,219,284)
Net Liabilities/(Assets)	**19,135,845**	**20,535,668**
Equity	**341,923,461**	**347,093,926**
TOTAL BORROWED CAPITAL	**361,068,306**	**367,629,594**
Gearing ratio	**5.3%**	**5.92%**

Credit risk

Credit risk is the possibility that contracting parties breach their contractual obligations resulting in financial loss for the Company. When possible and allowed by market practices, the Group requests guarantees.Trade receivables derive from a wide range of customers operating in various fields of activity and different geographical areas.To counteract this risk factor, the Group applied restrictive policies to the delivery of products to doubtful customers. 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.

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

26 RISK MANAGEMENT (continued)

	2020	2019
Trade receivables (long and short terms)	77,526,170	79,909,762
Other receivables (long and short terms)	3,279,447	2,738,768
Cash and cash equivalents	24,487,010	26,219,735
	105,292,627	**108,868,265**

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 Group 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.

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 December 31, 2020, their situation is as follows:

	Assets	Liabilities	Net exposure
EUR	1,531,352	648,630	882,721
USD	21,610	73,051	(51,442)
MDL	1,744,402	-	1,744,402

At December 31, 2019, their situation is as follows:

	Assets	Liabilities	Net exposure
EUR	2,775,954	477,370	2,298,584
USD	19,067	130,371	(111,304)

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 1,051,138.

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

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 mother-Company took action for reducing its exposure by re-dimensioning its customer portfolio and externalized the balancing services.

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

26 RISK MANAGEMENT (continued)

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.

Riscul de lichiditate şi cash-flow

Each of the Group's 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. 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. This risk is closely related to the risks described.

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

	December 31, 2019	0 - 1 year	1 - 2 years	2 - 5 years	In more than 5 years
Trade receivables	78,368,182	59,558,612	7,552,175	11,703,323	-
Trade liabilities	44,415,737	44,415,737	-	-	-

	31 decembrie 2018	0 - 1 an	1 - 2 ani	2 - 5 ani	peste 5 ani
Trade receivables	80,757,315	55,855,509	13,899,307	11,002,499	-
Trade liabilities	45,206,201	43,753,920	1,452,281	-	-

Fair value of financial instruments

December 31, 2020	**Carrying value**	**Fair value**	**Level**
Financial assets			
Trade receivables	77,526,170	77,526,170	Level 1
Cash and cash equivalents	24,487,010	24,487,010	Level 1
Other current assets	3,279,447	3,279,447	Level 1
	105,292,627	**105,292,627**	

December 31, 2020	**Carrying value**	**Fair value**	**Level**
Long term financial liabilities			
Trade and other payables	1,378,045	1,378,045	Level 1
	1,378,045	**1,378,045**	
Short term financial liabilities			
Trade payables	42,933,296	42,933,296	Level 1
	42,933,296	**42,933,296**	

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

26 RISK MANAGEMENT (continued)

December 31, 2019	**Carrying value**	**Fair value**	**Level**
Financial assets			
Trade receivables	79,909,762	79,909,762	Level 1
Cash and cash equivalents	26,219,735	26,219,735	Level 1
Other current assets	1,988,685	1,988,685	Level 1
	108,119,182	**108,119,182**	

December 31, 2019	**Carrying value**	**Fair value**	**Level**
Long term financial liabilities			
Trade and other payables	1,452,281	1,452,281	Level 1
	1,452,281	**1,452,281**	
Short term financial liabilities			
Trade payables	46,567,674	46,567,674	Level 1
	46,567,674	**46,567,674**	

Political and legislative risk

Considering that Romania has, after the elections, a new government supported by a stable majority and the year 2021 is not an electoral year, we have not identified political and / or legislative risks. The declared tendency of the new government is to reduce its administrative expenses and salaries and to support both subsidies and investment facilities. Under these conditions, for Electromagnetica there is an increase in its own production on several product lines.

Risk related to the lack of qualified human resources

This risk has become important both for the group and at national level. Due to factors such as: massive immigration, strong competition and the relatively high level of wages in Bucharest area, the Group Companies were confronted following recruitment notices with a lack of qualified workers for production activities, such as locksmiths, milling machine operators, turners, etc. To counteract this situation, we focused on the reconversion and training of own employees where layoffs were made, as well as on the continuous training of new employees. We also consider the application of an internship program with the possibility of retaining in the Group companies these persons at the end of the internship period.

Risk related to data protection and processing

The risk can be generated by situations such as the loss or accidental modification of data, as well as by the unauthorized access to personal data. Irrespective of the ground for processing, Electromagnetica complies with the obligations laid down by the General Data Protection Regulation – Regulation (EU) 2016/679, including the obligation to inform the data subject upon the collection of data.

Medical risks (COVID 19 pandemic)

It remains one of the most important risks that society has faced in 2021. The appearance of vaccines and the start of the vaccination campaign will determine a decrease in the incidence of infection cases. We forecast that in the second half of 2021 there will be a relaunch of the economy and an increase in product orders and customer consumption of the Energy Supply business.

The Group will continue the strict policy of measures to prevent cases of infection with employees and tenants.

26 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 group companies 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 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

As of December 31, 2020, the mother-Company had the following commitments granted for bank loans and guarantee agreements / credit agreements concluded with the financing banks (BCR, BRD, Libra Internet Banking, OTP BANK):

• for bank credits as working capital the amount of RON 23,590,000

• Non-cash guarantee agreements in amount of RON 46,581,748

As of December 31, 2020, the mother-Company had at its disposal an amount of RON 23,590,000 not drawn from the loan facilities contracted with the banks.

As of December 31, 2020, the mother-Company had at its disposal the amount of RON 18,309,492, as unused, from the non-cash facilities for letters of guarantee.

The commitments granted to the mother-Company are guaranteed with accounts opened with creditor banks, receivables, collateral deposits in the amount of RON 171,748, tangible assets (land, buildings) in the amount of RON 112,344,122 (Note 4).

The commitments received from clients and tenants in the form of letters of guarantee on December 31, 2020, are worth RON 178,255 according to the contractual clauses.

Litigation

The litigations in which the company is involved are values that are not likely to affect the financial stability of the Group.

28. SUBSEQUENT EVENTS

The influence of the regularization of the final share of green certificates for the energy supply activity carried out in 2020 was not reflected in the financial statements due to the late publication of ANRE order no. 9 / 24.02.2020. Regularization will not influence profit.

Also, the management has no knowledge of events, economic changes or other factors of uncertainty that could significantly affect the company's income or liquidity, other than those mentioned.

These consolidated financial statements were approved for issue by the management as at March 24, 2021:

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Economic Manager

SOCIETATE COMERCIALA PE ACTIUNI ELECTROMAGNETICA

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ECHIPAMENTE ELECTRICE SI ELECTRONICE
INJECTIE MASE PLASTICE
PROIECTARE
PRODUCTIE ENERGIE ELECTRICA DIN SURSE REGENERABILE SI FURNIZARE ENERGIE ELECTRICA
SUBCONTRACTARE PRODUSE SI SUBANSAMBLE ELECTRONICE, MASE PLASTICE, METALICE
SOLUTII DE ILUMINAT CU LED

BOARD OF DIRECTORS REPORT FOR THE FINANCIAL YEAR 2020

ON THE ECONOMIC AND FINANCIAL ACTIVITY OF ELECTROMAGNETICA SA

- CONSOLIDATED STATEMENTS –

according to Articles 61 and 63 of Law no. 24/2017 on issuers of financial instruments and payment operations, and to annex 15 to the Financial Supervisory Authority (ASF) Regulation no. 5/2018 and to the Code of Bucharest Stock Exchange

1. ELECTROMAGNETICA IDENTIFICATION DATA:

Report date: March 24, 2020

Company name: **Electromagnetica SA**

Registered office: **266-268 Calea Rahovei Street, District 5, Bucharest, postal code 050912**

Tel/ Fax: **021 404 21 02/ 021 404 21 95**

Tax ID: **RO414118**

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: **RON 67,603,870.40**

2. GROUP PRESENTATION AND HISTORY

The parent company was born in 1930 under the name “Standard Electrica Romană”. The other entities of the Group were set up as follows:

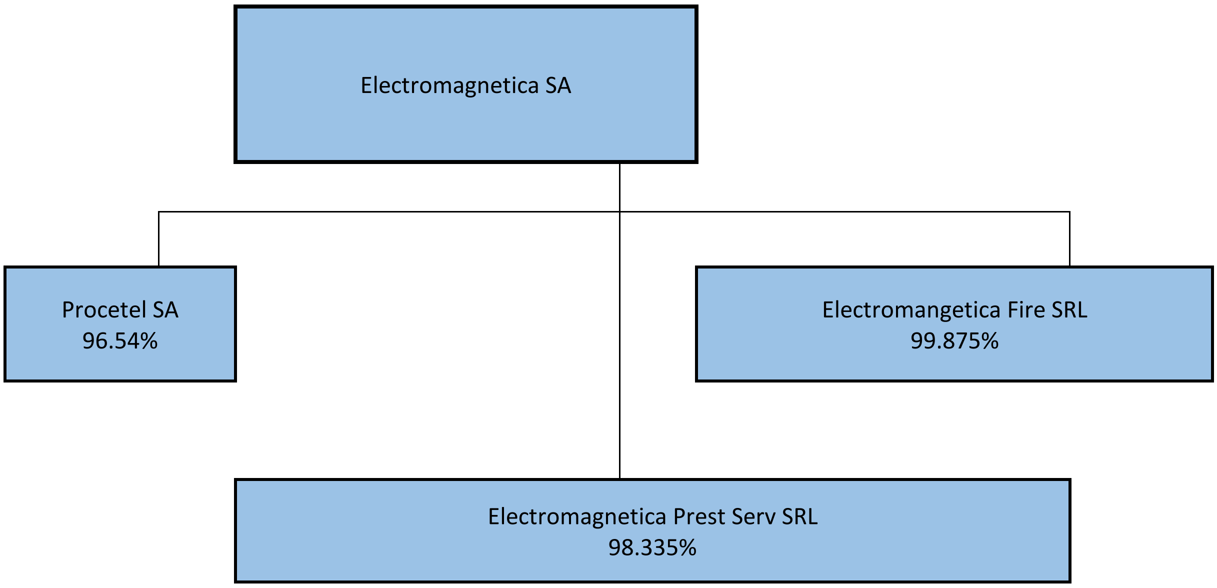
- ***Electromagnetica Goldstar*** – was set up in 1991 and operated as a joint venture with Romanian-Korean capital until 2011, when ELMA took over all its shares and became sole shareholder;This company was liquidated in November 2020 and all the assets and liabilities were transferred to Electromagnetica S.A

- ***Procetel*** – was set up in 1991 having as main object of activity research and development in other natural sciences and engineering. Currently, the revenues of the company come from the rental of premises;

- ***Electromagnetica Prestserv*** – was set up in 2003 in Bucharest, by the outsourcing of certain cleaning services within ELMA;

- ***Electromagnetica Fire*** – was set up in 2006 in Bucharest, by the outsourcing of technical assistance services for fire prevention and extinguishing, and private civil protection emergency services.

3. GROUP STRUCTURE AT THE END OF 2020



4. OVERVIEW OF THE GROUP ACTIVITY

4.1. 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, the Government Emergency Ordinances (GEO) nos. 82/2007 and 52/2008, as well as Law no. 297/2004 on the capital market and Law no. 24/2017 regarding the issuers of financial instruments.

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 Depositary). 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 2019 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.

The Company prepares consolidated financial statements in its capacity as parent company of a group of firms.

4.2. Overview of subsidiaries

- **Procetel SA** is a joint stock company with registered office in Calea Rahovei 266-268, Bucharest, sector 5, registration number with the Trade Register J40/10437/1991, sole registration number 406212, phone: 031.700.2614, fax: 031.700.2616, having as main object of activity research and development in other natural sciences and engineering (NACE code 7219). Currently, its revenues come from the rental of premises. The participation of Electromagnetica SA in Procetel SA is 96.54% of the capital. The company is managed by a sole director, Mrs. Antoaneta Monica Stanila, with a term of office of 4 years starting on 15.08.2018

- **Electromagnetica Goldstar SRL** is a limited liability company with registered office in Bucharest, Calea Rahovei nr 266-268, sector 5, registration number with the Trade Register Office attached to Bucharest Tribunal J40/12829/1991, sole registration number 400570, having as main object of activity the manufacturing of communication equipment (NACE code 2630). The company carried out in 2020 service and warranty activities for communications equipment as well as space rental. At the end of 2020, Electromagnetica Goldstar SRL was liquidated with the takeover of assets and debts by Electromagnetica SA as sole shareholder.

- **Electromagnetica Prestserv SRL** is a limited liability company with registered office in Calea Rahovei 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 number J40/1528/2003, sole registration number 15182750, providing cleaning services. Electromagnetica holds 98.335% of the company share capital. The company is managed by a sole director, Mr. Ciobanu Gheorghe, with a term of office until 03.11.2023

- **Electromagnetica Fire SRL** is a limited liability company with registered office in Calea Rahovei nr 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 number J40/15634/2006, sole registration number 19070708, carrying out activities in the field of fire protection, technical assistance for fire prevention and extinguishing, and private civil protection emergency services. Electromagnetica holds 99.875% of the share capital. The company is managed by a sole director, Mrs Rogoz Maria, whose term of office was extended by another 4 years starting on March 26,.2018.

5. SUBSIDIARY MERGERS AND REORGANIZATIONS IN 2020

The group of firms of which Electromagnetica SA is the parent company is composed of Procetel SA, Electromagnetica Goldstar SRL, Electromagnetica Fire SRL, and Electromagnetica Prestserv SRL, which mainly represent outsourcing of services. In **2020** there were no changes in the shareholding structure of the controlled companies. Except for Electromagnetica Goldstar SRL, the other companies mainly carry out their activity in direct relationship with the parent company.

As previously presented, at the end of 2020, an important event was the voluntary dissolution of the company Electromagnetica Goldstar SRL, approved by the EGMS decision of 26.04.2017. On 06.07.2020, the decision of the Sole Shareholder of the Company was issued, by which Electromagnetica decided the simultaneous dissolution and liquidation of the company, in accordance with the provisions of art. 227 para. (1) lit. d) and, respectively, art. 235 of the Companies Law no. 31/1990. The assets of the dissolved company, especially the afferent building, were taken over by Electromagnetica, and will be capitalized by renting.

6. TRANSACTIONS OF THE PARENT COMPANY WITH RELATED PARTIES

The sales of goods and services to the branches, in total of 399,414.05 lei, include deliveries of various materials, rents and utilities. Purchases from branches, in a total value of 4,077,577.67 lei, include rents, utilities, cleaning and transport services, fire prevention and extinguishing services.

7. CONTRIBUTION OF THE PARENT COMPANY TO THE RESULT OF THE GROUP

The analysis of the individual and consolidated financial statements shows that the companies controlled by Electromagnetica have a very small influence on the consolidated operating result, as follows:

- lei-

	December 31, 2020			December 31, 2019		
	Group	**Parent company**	**%**	**Group**	**Parent company**	**%**
Non-current assets	311,630,542	309,840,532	99.43%	319,948,611	313,343,879	97.94%
Current assets	99,183,339	94,954,770	95.74%	100,134,249	94,936,464	94.81%
Shareholders' equity	341,932,461	335,223,960	98.04%	347,093,926	335,603,476	96.69%
Long-term liabilities	23,318,824	23,463,987	100.62%	24,695,005	23,736,660	96.12%
Current liabilities	45,295,796	46,107,356	101.79%	49,225,335	48,940,206	99.42%

8. DESCRIPTION OF THE ACTIVITY OF THE GROUP AND OF THE PARENT COMPANY

Electromagnetica has the following main business lines**:**

A. **PRODUCTS AND SERVICES TO INCREASE ENERGY EFFICIENCY**

B. **ELECTRICITY PRODUCTION AND SUPPLY**

C. **REAL ESTATE RENTAL AND DEVELOPMENT**

D. **OTHER ACTIVITIES**

The parent company provides rental and utility services to the subsidiaries.

PROCETEL SA mainly carries out rental activities to the parent company. Another activity was the delivery, installation and maintenance of air conditioners which accounted for 20% of turnover. The rental services received by the parent company from Procetel SA are carried out with the right to rent to independent entities because the subsidiaries do not have sufficient and specialized staff to manage these rental contracts. The subletting of the spaces is done without applying a profit margin and without charging a commission for these services provided to the affiliates.

ELECTROMAGNETICA PRESTSERV SRL provides cleaning services in the relationship with the parent company.

ELECTROMAGNETICA FIRE SRL carries out in its relationship with the parent company activities in the field of fire protection, technical assistance for fire prevention and extinguishing, private emergency services for civil protection, interior design, electrical works and cleaning services.

ELECTROMAGNETICA GOLDSTAR SRL provided during 2020 various activities to third parties (service and technical support), as well as rental activities to third parties.

9. MAIN EVENTS WITH SIGNIFICANT IMPACT ON THE COMPANY'S ACTIVITY

During 2020, the COVID 19 pandemic had a significant impact on the Electromagnetic activity, affecting the company's results.

This event had both direct effects, in the organization and development of activities and indirect by decreasing the volume of orders received from customers.

Sustained efforts were made to prevent infections, applying preventive and access control measures such as monitoring the temperature at the entrance, repeated disinfection of the spaces during the day, installation of antibacterial gel dispensers at the main access doors, training of employees and shifting program. At the same time, where the activity allowed it, it went, through rotation, to the telework regime.

In the case of SARS-COV 2 virus infection (or even the suspicion of such a possibility) in employees, epidemiological investigations were performed and extensive testing of the respective employees or colleagues of the infected persons was performed. Thus, during 2020, more than 90 antibody tests and 482 PCR tests were performed. They were distributed free of charge, weekly, to the employees disposable protective masks. The infected persons were provided with a first counseling by the occupational medicine doctor, recommending in all cases the isolation at home and contacting the family doctor and the DSP.

Through the Legal Office, the heads of jobs were regularly informed of the decisions and decisions taken by the Government, the Committee for Emergency Situations, the Ministry of Health and other bodies involved, and they will disseminate the information to subordinates.

10. EVALUATION OF PERSONNEL-RELATED ISSUES

The parent Company

The high level of employee training allowed the company to undertake both productive and research and development activities. In 2020, the average number of employees was 387, down 15% from the previous year.

In 2020, because of declining orders, the company reduced its working hours to 4 days for 3 months, with a proportional reduction in revenues. In this way it was possible to avoid dismissals and keep qualified employees.

Of these, 30% have higher education and 35% have secondary education. The company's staff follows a continuous professional training program, each employee benefiting from an average of 25 hours / year of professional training or internal and external training on quality, occupational health and safety, environment, etc.

The relations between management and employees take place under normal conditions. The degree of unionization is about 73% and there were no labor disputes between employers and unions. More information on social and personnel policy, occupational health and safety policy, human rights policy and related risks and key performance indicators is available in the Board's Non-Financial Statement for 2020 published together with this report on the company's website www.electromagnetica.ro.

The other Group Companies:

Company	Average no. of employees
ELECTROMAGNETICA FIRE SRL	30
ELECTROMAGNETICA PRESTSERV SRL	19
ELECTROMAGNETICA GOLDSTAR SRL	14
PROCETEL SA	5

In 2020, no new cases of occupational diseases or events with a major impact on human health and safety were registered.

11. GROUP BUSINESS IMPACT ON THE ENVIRONMENT

Electromagnetica SA has all the legal environmental authorizations, necessary to carry out the activity, having implemented an Environmental Management System according to SR EN ISO 14001: 2015. The company does not carry out activities with a significant impact on the environment and has no litigation regarding the violation of the legislation regarding the protection of the environment.

The other companies in the group operate in the same premises (ELECTROMAGNETICA BUSINESS PARK) and do not have activities that by their nature pollute the environment and respect the same rules on compliance with environmental requirements.

12. RISK MANAGEMENT. RISK FACTORS

For Electromagnetica SA, the details of the risks and the way in which they are managed, are described in Chap. 8 Directors' Report - Individual situations. The risks of the other companies in the group related to the market, non-payment and cash flow are closely related to the parent company, for which they perform activities almost exclusively.

Risk induced by the COVID pandemic 19

It remains one of the most important risks that society has faced in 2020. The appearance of vaccines and the start of the vaccination campaign will determine a decrease in the incidence of infection cases. We predict that in the second half of 2021 there will be a relaunch of the economy and an increase in product orders and customer consumption of the Energy Supply business.

The Group will continue the strict policies of measures to prevent cases of infection in employees and tenants.

Market risk (includes the price risk and implies the risk due to technological changes)

Among the markets in which the company operates, the energy market is the one with the highest price risk, taking into account the volatility and the sharp increase in prices in recent years on the Next Day Market and the Balancing Market (large producers preferred to maximize their profits selling large quantities in these markets to the detriment of a long-term contracts), as well as the lack of long-term risk hedging mechanisms. The behavior of energy producers to sell as much energy as possible in the spot market is likely to increase the price risk in this market. To control price risk in the energy market, measures have been taken to limit exposure to short-term contracts and balancing services have been outsourced. This risk is also important on the LED lighting market as well as in terms of plastics injection, areas where there is strong competition from both domestic manufacturers and distributors of imported products.

Exchange rate risk

The Company is exposed (to a limited extent) 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, a part of the prices were renegotiated and the related technological processes were improved.

Risk of non-payment

The credit risk consists in the eventuality that the contracting parties violate their contractual obligations leading to financial losses for the company. When possible, the practice of the market allows the company to request guarantees. Trade receivables come from a wide range of clients who work in various fields of activity and in different geographical areas. To counteract this risk factor, the company applied policies for pre-contractual verification of customers (such as RISCO and COFACE reports). Debt insurance policies have been contracted on the foreign market.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.

In order to recover the overdue receivables, the Legal Department issued summons followed by actions in court (payment orders) and then, as the case may be, forced execution. Thus, most of the receivables have been recovered or are to be recovered. There were also clients who went into insolvency or in the preventive composition procedure, but their share is low.

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 involves forecasts on the liquidity reserve and maintaining an appropriate level of credit facilities in order to be able to prudently manage the liquidity and cash flow risks. 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. This risk is closely related to the risks described above.

Risk related to the lack of qualified human resources

This risk has become important both for Electromagnetica and at national level. Due to factors such as: massive immigration, strong competition and the relatively high level of wages in Bucharest area, the Company was confronted following recruitment notices with a lack of qualified workers for production activities, such as locksmiths, milling machine operators, turners, etc In order to counteract this situation, emphasis was placed on the reconversion and qualification of its own employees where vacancies appeared through retirement and also on continuous professional training programs for new employees.We also consider the application of an internship program with the possibility of retaining in the Company these persons at the end of the internship period.

Risk related to data protection and processing

The risk can be generated by situations such as the loss or accidental modification of data, as well as by the unauthorized access to personal data. Irrespective of the ground for processing, the Group complies with the obligations laid down by the General Data Protection Regulation – Regulation (EU) 2016/679, including the obligation to inform the data subject upon the collection of data.

Penalty risk

The Group manages these risks both through preventive actions. This includes monitoring legislative changes and informing colleagues, participation in courses and seminars (labor and competition law, GDPR - personal data protection, risk management and corporate governance, etc.) and last but not least, employee compliance courses. involved. In the first two months of 2021, a Manual for compliance with the competition rules was elaborated, which will be approved by the Board of Directors and subsequently adopted by all employees in Sales, Acquisitions and Energy Production / Supply.

Dispute-related risk

The litigations in which the companies are involved do not have values that would affect the financial stability of the compaies and the groupy, especially since in most cases Electromagnetica is in the position of creditor. In all cases, including those as creditors to insolvency / bankruptcy companies, procedural positions were formulated, in most cases being present at each procedural term. In 2021, deadlines are scheduled at the High Court of Cassation and Justice for the appeals filed by Electromagnetica in the files for annulment of the decisions of the Competition Council 82/2015 and 77/2017, respectively, and of the related fines. Given that these fines were foreseen in the respective financial years, there is only the prospect of improving the financial situation through a favorable solution.

Political and legislative risk

Given that Romania has, after the elections, a new government supported by a stable majority and the year 2021 is not an election year, no political risks have been identified. The legislative risks are very much related to the evolution of the COVID 19 pandemic, in case of negative evolutions being possible the prolongation of the alert state and / or the introduction of new restrictions that could affect in the medium term both the production activity and the supply of raw materials or timely delivery. to beginners.

Other risks – downgrade in Bucharest Stock Exchange to Standard category trading shares

One of the necessary conditions for maintaining trading in the Premium category is the existence of an increased liquidity and a free-float (existence of shares distributed to the general public) amounting to at least 40 million Euros. Electromagnetica, as parent company, does not currently meet this condition and it is possible that BVB will downgrade the company from the Premium category to the Standard category.

Risks covered by insurance policies

These include: the risk of natural disasters, the risk of accidental damage, the risk of business interruption, the risk of recovering the debts of various debtors, the risk of injury to exposed employees, protection of assets by insurance, liability to third parties, liability as producer, professional liability for some professions, liability of administrators. The activity of producing electricity in low power plants, so without storage lakes, is subject to risks of destruction caused by floods. Under these conditions, the company acted in the sense of concluding insurance policies against disasters to protect the MHCs as well as the buildings from the headquarters.

13. PARENT COMPANY'S BUSINESS PROSPECTS

Being mostly dependent on the commercial relations with the parent company, the perspective of the companies in the group depends on its evolution. Chapter 11 of the Directors' Report - Individual Statements describes the market trends and commercial policies of Electromagnetica.

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.

According to our assessments, the market of car charging stations will develop in a sustained way, more and more companies and local authorities having in the project the acquisition of stations, some acquisitions being stimulated by the financing programs mentioned above.

The climatic factor is also important, as the hydrological and wind regime strongly influences energy prices.In fact, the energy market is subject to the influence of several factors. Although Romania has a large installed capacity, this is only theoretical because, in fact, many groups are unavailable. There are periods when Romania is an energy exporter (in general in spring and autumn), but also periods when we are a net energy importer (in winter, in very cold periods, or in summer, in drought conditions, when the consumption required for climate control due to high temperatures increases). In both cases (energy import or export), the operation in connection with neighboring countries (and in particular the connection of the day ahead market) led to an important increase in energy prices, this trend being visible in 2021 as well.

2021 Forecasts

Large LED lighting systems such as those intended for municipalities for street lighting have also been promoted through supplier credit facilities. For 2021, the promotion and sale of lighting systems for individuals and legal entities will continue in parallel with the participation in all auctions published in SEAP. The sale will continue through the supplier credit base. Practicing this commercial policy presupposes a strategy of pursuing and securing cash for the development of the current activity. The use of existing credit lines will continue in the short term. At the same time, the company's commercial policy aims to keep under control the number of days established by contract for the payment of receivables by customers and a strict credit management system.

For 2021, the main objective is the integration of the current applications developed by Electromagnetica in SmartCity platforms. This involves creating access capabilities in management platforms for the integration of LED lighting fixtures, the integration of traffic sensors, fog, rain, snow, air quality, temperature, humidity, wind, data exchange with the ENERGSys measurement and remote management system. as well as taking over the information about the charging stations from the ELMotion platform.

Regarding the sale of LED lighting systems, we appreciate an increase of at least 5% compared to last year, there being premises to increase the number of tenders of the contracting authorities and especially those from European funds.
Among the most significant projects that will be carried out in 2021 is the lighting of stadiums in three important cities, the county seat.

At the same time, the development of a new data concentrator for ENERGSys is being evaluated, which will ensure a wider connectivity, which will be used mainly in Smart City type projects. For this, the new type of concentrator must, in addition to reading the electricity meters and the ON / OFF command function, be able to ensure the reading of sensors such as: air quality sensor, temperature sensor, humidity sensor, etc.

In the segment of electric vehicle charging stations, Electromagnetica will participate in 2021, both in the ELECTRIC UP program financed by the Ministry of Energy and in the program financed by the Environmental Fund Agency regarding the installation of 50 kW + 22 kW stations in municipalities and tourist resorts.

For 2021, the development of the 100KW Fast Charger charging station will be continued and the tests with the alternative charging controller will be continued. The 30 KW rectifier will be made in its own conception as an alternative to the imported solution. From a software point of view, functionalities such as car fleets, integrations with other systems (Plugshare), as well as integration with the Smart City platform will be implemented.

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Regarding the prospects of 2021, we appreciate that in the field of CFR security systems there will be an increase compared to 2020, the company having orders covering at least the first semester.

The injection of plastics will also register a significant increase, with an additional amount of ongoing contracts plus two new contracts started in 2020.

Procetel SA, also having activities to third parties, has proposed for 2021 a 7% increase in the profitability of the air conditioning installation / service activity. Regarding the rental activity, an occupancy rate of 80% is forecast.

14. CONSOLIDATED FINANCIAL AND ACCOUNTING STATEMENT AS OF 31 DECEMBER 2019 (ALL AMOUNTS EXPRESSED IN LEI, UNLESS OTHERWISE SPECIFIED)

NOTE: The results of the Group are strongly influenced by the results of the parent company, with a similar trend.

14.1 Financial position

	December 31, 2020	December 31, 2019
ASSETS		
Non-current assets		
Property, plant and equipment	275,842,017	285,087,505
Investment property	15,394,199	9,445,159
Intangible assets	293,334	465,370
Investments in related entities	19,804,010	24,702,276
Other long-term non-current assets	296,981	248,301
Total non-current assets	**311,630,542**	**319,948,611**
Current assets		
Inventories	13,668,013	15,968,258
Trade receivables	58,165,420	55,226,009
Cash and cash equivalents	24,487,010	26,219,735
Other current assets	1,923,621	1,971,163
Current tax assets	939,275	749,083
Total current assets	**99,183,339**	**100,134,249**
Total assets	**410,813,880**	**420,082,860**
EQUITY AND LIABILITIES		
Equity	67,603,870	67,603,870
Share capital	179,498,193	179,413,162
Reserves and other equity	94,830,398	100,076,894
Retained earnings	341,932,461	347,093,926
Minority interests	**266,799**	**273,089**
Total equity attributable to company’s shareholders	**342,199,260**	**347,367,015**

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	December 31, 2020	December 31, 2019
Non-current liabilities		
Trade payables and other liabilities	1,168,772	1,265,003
Investment subsidies	4,247,088	4,410,306
Deferred tax liabilities	17,693,690	18,291,532
Leasing debts	209,274	187,279
Total non-current liabilities	**23,318,824**	**24,154,120**
Current liabilities		
Trade payables and other liabilities	42,836,933	46,528,679
Investment subsidies	163,219	163,219
Provisions	2,199,281	1,830,832
Leasing debts	96,363	38,995
Total current liabilities	**45,295,796**	**48,561,725**
Total liabilities	**68,614,620**	**72,715,844**
Total equity and liabilities	**410,813,880**	**420,082,859**

14.2 The consolidated statement of profit and loss is as follows:

	12-month period ended December 31, 2020	12-month period ended December 31, 2019
Revenues	**284,241,630**	**257,397,078**
Investment income	294,837	359,931
Other net income	3,849,923	7,510,666
Changes in inventories of finished goods and work in progress	7,935,885	13,389,049
Raw materials and consumables used	1,481,686	772,403
Materiile prime şi consumabile utilizate	(219,985,251)	(189,493,175)
Employee-related expenses	(33,725,428)	(39,670,742)
Expenses related to depreciation and impairment	(9,062,943)	(9,138,938)
Other expenses	(36,829,837)	(34,907,283)
Financial expenses	(750,248)	(777,887)
Profit before tax	**(2,549,747)**	**5,441,102**
Income tax	97,034	(532,612)
Profit of the period	**(2,452,714)**	**4,908,490**

14.3 Consolidated Cash flow

	Period ended at December 31,2020	Period ended at December 31,2019
Net cash used in operating activities	1,932,718	(4,534,071)
Net cash used in investments	(460,533)	(333,779)
Net cash used in financing activities	(3,204,911)	(2,696,665)
Net (decrease)/ increase of cash and cash equivalents	(1,732,725)	(7,564,515)
Cash and cash equivalents at the beginning of the period	26,219,735	33,784,250
Cash and cash equivalents at the end of the period	24,487,010	26,219,735

15. POLICY ON DIVIDENDS

Among the Group companies, for the last three years:

Electromagnetica SA :

in 2018 – one dividend of 0.004 lei/share,

in 2019 – one dividend of 0.004 lei/share,

in 2020 - will be decided on the General Assembly of the Shareholders of 2021.

Procetel SA

in 2018 – dividends of RON 658,487 (15.5 RON/share)

in 2019 – dividends of RON 660,630 lei (15.6 RON/share)

in 2020 - will be decided on the General Assembly of the Shareholders of 2021.

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16. INDEPENDENT EXTERNAL AUDITOR

Following the Ordinary General Meeting of Shareholders of April 2019, it was decided to contract with Deloitte Audit SRL the auditing of the financial statements for the financial years 2018 and 2019 and in the GAS of April 2020 it was decided the auditing of the 2020 financial statementsby the same auditor. The audit company is represented by Mr. Zeno Caprariu – Audit Partner, while the audit mission is run by Mrs. Oana Ionica - audit Director.

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: Bucharest, sector 1, Calea Grivitei 82-98, “The Mark” Building

Tel 021/222.16.61

Fax 021/319.51.00

Note:

In the present material are presented only the elements characteristic of the consolidated situations, respectively, those referring to the group of companies controlled by Electromagnetica. The parent company is the only one that carries out production activities. Since the group's activity is mostly determined by the activity of the parent company (> 97% of revenues), all other aspects described in the Directors 'Report - Individual situations are also valid for the Directors' Report - Consolidated situations, without being repeated in this material.

Board of Directors Chairman/Managing Director
Eugen Scheusan

Chief Financial Officer
Cristina Florea