ELECTROMAGNETICA S.A.

CONSOLIDATED FINANCIAL STATEMENTS

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

FOR THE PERIOD OF SIX MONTHS ENDED JUNE 30, 2017

UNAUDITED

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2017
(all amounts are expressed in RON, unless otherwise specified)

	Nota	Jan-Jun 2017	Jan-Jun 2016
Revenues	**18**	**98.582.027**	**113.036.020**
Investment income	**18**	4.695	(30.969)
Other net income	**18**	3.162.750	2.481.573
Changes in inventories of finished goods and work in progress	**18**	5.103.659	7.440.417
Own work capitalized	**18**	1.149.972	881.924
Raw materials and consumables used	**19**	(77.384.461)	(78.470.601)
Employee-related expenses	**19**	(18.372.731)	(16.892.968)
Expenses related to depreciation and impairment	**19**	(8.034.773)	(5.089.092)
Other expenses	**19**	(12.584.286)	(18.004.157)
Financial expenses	**20**	(335.323)	(336.248)
Profit/(Loss) before tax		**(8.708.471)**	**5.015.899**
Income tax	**21**	(337.332)	(267.630)
Profit/(Loss) of the period		**(9.045.803)**	**4.748.269**
Distributable to the parent		(9.053.862)	(4.740.278)
Distributable to non-controlling interests		8.059	7.991
Other comprehensive income			
of which:			
other comprehensive income that cannot be reclassified to profit or loss, of which:			
- revaluation surplus for tangible assets		708.711	36.199
- deferred tax recognized in equity	**21**	**(8.337.092)**	**4.784.468**
Comprehensive income for the period		**(0.0134)**	**(0.0071)**

These consolidated financial statements were approved for issuance by the management as at August 10, 2017.

Eugen Scheuşan	**Ilie Frăsineanu**
Managing Director	Economic Manager

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2017
(all amounts are expressed in RON, unless otherwise specified)

	Note	June 30, 2017	December 31, 2016
ASSETS			
Non-current assets			
Property, plant and equipment	**4**	296.088.840	298.078.444
Investment property	**5**	7.664.546	7.664.546
Intangible assets	**6**	1.457.648	1.637.684
Other non-current assets	**7**	17.259.947	17.038.631
Total active imobilizate		**322.470.981**	**324.419.304**
Current assets			
Inventories	**8**	16.356.079	18.029.921
Trade receivables	**9**	32.665.056	34.516.350
Cash and cash equivalents	**11**	13.221.457	21.521.428
Other current assets	**10**	977.092	3.165.527
Current tax assets	**21**	87.548	-
Total current assets		**63.307.231**	**77.233.226**
Total assets		**385.778.212**	**401.652.531**
EQUITY AND LIABILITIES			
Equity			
Share capital	**12**	67.603.870	67.603.870
Reserves and other equity	**13**	184.718.702	181.225.908
Retained earnings	**14**	78.177.727	90.053.565
Total equity attributable to parent's shareholders		**330.500.299**	**338.883.343**
Non-controlling interests		**207.930**	**215.061**
Non-current liabilities			
Trade payables and other liabilities	**17**	1.223.393	2.784.610
Investment subsidies	**15**	4.818.353	4.899.962
Deferred tax liabilities	**21**	18.726.431	17.785.656
Total non-current liabilities		**24.768.176**	**25.470.228**
Current liabilities			
Trade payables and other liabilities	**17**	28.760.046	34.811.611
Investment subsidies	**15**	163.219	163.219
Provisions	**16**	1.378.542	1.833.135
Current income tax liabilities	**21**	-	275.933
Total current liabilities		**30.301.807**	**37.083.898**
Total liabilities		**55.069.983**	**62.554.126**
Total equity and liabilities		**385.778.212**	**401.652.531**

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

	Note	6-month period ended June 30, 2017	6-month period ended June 30, 2016
Cash flows from operating activities:			
Cash receipts from customers		109.996.768	133.088.566
Payments to suppliers		(85.153.335)	(103.745.387)
Payments to employees		(18.651.917)	(16.892.968)
Other operating activities		(11.542.065)	(13.495.580)
Cash used in operating activities		**(5.350.549)**	**(1.045.369)**
Interest paid		(25.575)	(72.719)
Income tax paid		(403.124)	(45.227)
Net cash generated by/ (used in) operating activities		**(5.779.248)**	**(1.163.315)**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2.930.691)	(650.627)
Proceeds from sale of non-current-assets		119.163	4.493
Interest received		10.540	12.923
Net cash used in investing activities		**(2.800.988)**	**(633.211)**
Cash flows from financing activities			
Proceeds from loans		32.044.350	68.721.126
Cash repayments of amounts borrowed		(31.752.412)	(68.721.126)
Dividends paid		(11.672)	(19.287)
Net cash used in financing activities		**280.266**	**(19.287)**
Net increase/decrease of cash and cash equivalents		**(8.299.971)**	**(1.815.813)**
Cash and cash equivalents at beginning of period	**11**	**21.521.428**	**17.009.936**
Cash and cash equivalents at end of period	**11**	**13.221.457**	**15.194.123**

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Managing Director	Economic Manager

ELECTROMAGNETICA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2017
(all amounts are expressed in RON, unless otherwise specified)

	Share capital	Retained earnings	Tangible assets revaluation reserve	Other reserves	Legal reserve	Non-controlling interests	Total equity
Balance as at January 1, 2016 - restated	**67.603.870**	**60.597.289**	**21.250.447**	**58.089.051**	**56.865.835**	**146.750**	**264.553.453**
Profit or loss of the period	-	4.740.278	-	-	-	7.991	4.748.269
Other comprehensive income							
Legal reserve	-	-	-	(335.786)	335.786	-	-
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets	-	231.618	(231.618)	-	-	-	-
Restatment of deferred tax for revaluation following deprecetation	-	-	36.199				36.199
Deferred tax recognized to reserves	-	(171.087)	-	171.087	-	-	-
Transfer of inflation adjustment to retained earnings	-	22.716.628	-	-	(22.716.628)	-	-
Total comprehensive income for the period	**-**	**27.517.437**	**(195.419)**	**(164.699)**	**(22.380.842)**	**7.991**	**4.784.468**
Transactions with shareholders recognized directly in equity							
Other items	-	9.937	-	-	-	(13.390)	(3.453)
Balance as at December 31, 2015 (restated)	**67.603.870**	**88.295.750**	**21.055.028**	**57.753.265**	**34.484.993**	**141.351**	**269.334.468**

The legal reserve decreased in 2016 as a result of covering the accounting loss recorded in 2015 by the adjustment of the legal reserve calculated according to IAS 29 following the transition to IFRS (Note 15).

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Managing Director

Ilie Frăsineanu
Economic Manager

ELECTROMAGNETICA S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2017
(all amounts are expressed in RON, unless otherwise specified)

	Share capital	Retained earnings	Tangible assets revaluation reserve	Other reserves	Legal reserve	Non-controllin g interests	Total equity
Balance as at January 1, 2017	**67.603.870**	**90.053.566**	**88.968.568**	**57.834.598**	**34.422.742**	**215.061**	**339.098.404**
Comprehensive income for the period							
Profit or loss of the period	-	(9.053.862)	-	-	-	8.059	(9.045.803)
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets	-	1.615.336	(1.615.336)	-	-	-	-
Restatement of deferred tax for revaluation following depreciation	-	-	708.711				708.711
Transfer of inflation adjustment to retained earnings	-	(4.373.118)	-	4.373.118	-	-	-
	-	**(11.811.644)**	**(906.625)**	**4.373.118**	**-**	**8.059**	**(8.337.092)**
Total comprehensive income for the period							
Transactions with shareholders, directly registered to equity							
Other items	-	(64.195)	(27.421))	53.932	(211)	(15.190)	(53.085)
Balance as at June 30, 2017	**67.603.870**	**78.177.727**	**88.034.522**	**62.261.648**	**34.422.531**	**207.930**	**330.708.227**

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Eugen Scheuşan
Managing Director

Ilie Frăsineanu
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.

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

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

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

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

Statement of interest in subsidiaries

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

**) Negotiated purchase value*

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

1. GENERAL INFORMATION ON THE GROUP (continued)

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

a) Electromagnetica Goldstar SRL

Administrative management: Florea Vlad – Sole Director, under a 4 year mandate valid until 1 August 2019
Executive management: Viorel Stroică – Executive Director

b) Electromagnetica Fire SRL

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

c) Electromagnetica Prestserv SRL

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

d) Procetel SA

Administrative management: Florea Vlad – Sole Director, under a 4 year mandate valid until 29 April 2018
Executive management: Mihai Sanda – Accounting Officer

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:

At the date of authorisation of these financial statements no amendments to the existing standards issued by the International Accounting Standards Board (IASB) and effective for the current reporting period were adopted by the European Union.

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

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

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

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

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

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

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

- **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,

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- **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 IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),

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

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

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

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

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

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

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

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

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

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

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

- **IFRS 16 "Leases"** issued by IASB on 13 January 2016. Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

- **Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions** issued by IASB on 20 June 2016. The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

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

- **Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** issued by IASB on 12 September 2016. The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the Board is developing for IFRS 4.

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** issued by IASB on 11 September 2014 (on 17 December 2015 IASB deferred indefinitely effective date). The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative issued by IASB on 29 January 2016. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

- **Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses** issued by IASB on 19 January 2016. The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value.

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property issued by IASB on 8 December 2016. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Amendments also state that the list of evidence in paragraph 57 was designated as non-exhaustive list of examples instead of the previous exhaustive list.

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** issued by IASB on 8 December 2016. Amendments to various standards resulting from the annual

  improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording. Changes include: (i) deletion of the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose, (ii) clarification of the scope of the IFRS 12 by specifying that the disclosure requirements in IFRS 12, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", (iii) clarification of the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

  - **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** issued by IASB on 8 December 2016. Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the reporting date, i.e. December 31, 2016, and in compliance with Ministry of Public Finance Order no. 2844/2016 approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to the companies the shares of which are admitted to trading on a regulated market, as further amended and clarified. These provisions are consistent with the requirements of the International Financial Reporting Standards adopted by the European Union.

Functional and presentation currency

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

Basis of preparation

The consolidated financial statements were prepared at historical cost, except for certain financial instruments that are measured at fair value, as explained in the accounting policies. The historical cost is generally based on the fair value of the consideration in exchange of the assets.

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

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

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

The consolidated financial statements include the separate financial statements of SC Electromagnetica SA (the parent company) and its subsidiaries ("the Group") as at December 31, 2016, prepared based on uniform accounting and measurement principles. The financial statements of the subsidiaries are prepared at December 31, 2016, the same reporting date as for the parent company.

Consolidation of subsidiaries

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

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

3.SIGNIFICANT ACCOUNTING POLICIES(continued)

the transactions, balances, revenues and expenses within the Group are fully eliminated upon consolidation.

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

Comparatives

Certain amounts in the statement of financial position, the statement of profit or loss and other elements of comprehensive income, the statement of cash flows and the statement of changes in equity were reclassified to comply with the presentation of the current year (Notes 4, 9, 10, 20, 21, 22, 27).

Foreign currency

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

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

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

	Exchange rate as at June 30, 2017	**Exchange rate as at June 30, 2016**
EUR	4.5503	4.5210
USD	3.9857	4.0624

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.

3. SIGNIFICANT ACCOUNTING POLICIES(continued)

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.

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

The Group changes an accounting policy only if the change:

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

We present below a summary of the significant accounting policies applied to all the periods presented in the financial statements, except for the changes deriving from the new standards and amendments to standards with the date of initial application January 1, 2016 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.

3.SIGNIFICANT ACCOUNTING POLICIES(continued)

- 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 Group develops unobservable inputs using the best information available in the circumstances, which might include the Group's own data.

Intangible assets

Initial measurement

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

The fair value of land and buildings is generally market-based, through a valuation made by professional and qualified valuers.

3.SIGNIFICANT ACCOUNTING POLICIES (continued)
Measurement subsequent to initial recognition (**continued)**

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

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

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

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 - 60
Technological equipment	5 - 12
Measurement, control and adjustment devices	3 - 8
Motor vehicles	4 - 8
Furniture, office equipment, human and material protection equipment	8 - 15

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment policy applied by the company

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

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

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

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

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

Maintenance and capital repairs

Capitalized costs for capital repairs are separate components of the corresponding assets or groups of assets. Capitalized costs for capital repairs are amortized using the amortization method used for the underlying asset until the next repair. The expenditure for capital repair works includes the cost of replacing the assets or parts thereof, the costs of inspection and the costs of capital repairs. The expenditure is capitalized if an asset or a part of an asset which was amortized separately is replaced and is expected to generate future economic benefits. If a part of the replaced asset was not considered a separate component and, therefore, was not amortized separately, the replacement value is used to estimate the net carrying amount of the replaced asset(s) which is/are immediately removed. All the other costs incurred for day to day repairs and ordinary maintenance are directly recognized as expenses.

Investment property

Initial measurement

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

Measurement after recognition

The 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.

Financial assets

Financial assets include the loans granted to entities, other investments held as fixed assets and other loans.

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

- financial assets at fair value through profit or loss – the financial assets held for trading;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

According to **IAS 39 - Financial Instruments**, the Group classifies the financial assets held as financial assets at fair value through profit or loss and classifies in this category the shares acquired for the purpose of trading, BVB portfolio. Short-term securities (shares and other financial investments) admitted to trading on a regulated market are measured at the quoted value on the last trading day.

Investments in related parties

Subsidiaries are entities controlled by the 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 has all of the following elements:

a) power over the investee;

b) exposure, or rights, to variable returns from its involvement with the investee;

c) the ability to use its power over the investee to affect the amount of the investor's returns.

None of the companies in which SC Electromagnetica holds interests is quoted on a stock exchange. The corresponding assets are measured at the acquisition cost, are annually tested for impairment and the impairment, if any, is recognised at the date of finding.

Consolidation procedures used

To consolidate the financial statements, Electromagnetica Group

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Uniform accounting policies

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

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

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

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

Reporting date

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

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

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

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

Borrowing costs

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

Government grants

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

This category also includes the equivalent value of the green certificates received as electricity producer, from the electricity transmission and distribution operator, in accordance with applicable legislation. These are initially measured at the trading price on the date of their receipt, as published by the operator of the electricity market. At the end of the financial period, the remaining green certificates are measured at the trading value published by the electricity market operator for the last transaction and the differences are reflected in the profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

According to IAS 2 - Inventories, these assets are:

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

Inventories are stated at the lower of cost and net realizable value. The net realizable value is estimated based on the selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. For inventories without moving or slow moving ones and finished goods adjustments are made based on the management's estimates. The set-up and reversal of allowances for inventories impairment is made in the profit and loss account.

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

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

Receivables and other similar assets

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

When a receivable is expected not to be fully collected, impairment allowances are recorded at the level of the amount that cannot be recovered. Recoverability is analysed based on the number of days elapsed from the maturity date, corroborated with an analysis of the status of litigation, where applicable. Receivables are written off following their collection or assignment to a third party. Current receivables can also be written off by the mutual offset of accounts receivable and payables between third parties, under the law. The receivables with expired collection time limits are written off after the Group obtains the documents proving that all the legal steps to recover these receivables were taken. Receivables written off continue to be monitored off the accounting records.

Cash and cash equivalents

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

A liability is 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’s operating cycle; or

b) it is primarily held for trading;

c) it is due to be settled within 12 months after the balance sheet date;

d) the Group does not have the unconditional right to postpone the settlement of the liability for at least 12 months from the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Liabilities (continued)

All the other liabilities must be classified as ***non-current liabilities***.

Financial liabilities are presented at amortized cost. Deferred income classified as non-current liabilities are discounted using the effective interest rate method. The discount rate used to this effect is the rate determined according to the Group'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 Group in relation to the current income tax is calculated using the tax rates provided for by the law or a draft legislative instrument at the end of the year. Currently, the tax rate is 16%.

Deferred tax

The deferred tax is created by analyzing the temporary differences of assets and liabilities. The tax loss carried forward is included in the calculation of the deferred tax asset. A deferred tax asset is recognized only if it is considered probable that there would be sufficient future taxable profit after the offset with the tax loss carry forward and the recoverable income tax.

Deferred tax assets and deferred tax liabilities can only be offset if the entity has this legal right and they relate to the income tax levied by the same tax authority.

Revenue recognition

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

Sale of goods

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

This is also the case of supply contracts with supplier credit facility if the Group can offer to the buyer an interest-free credit or can accept from the latter trade instruments with a below-market rate of interest as consideration for the sale of goods.

For the commercial contracts concluded as deferred payment supplier, the difference between the fair value and the nominal amount of the consideration is recognized as **interest income**. The fair value of the consideration is determined by discounting all the amounts receivable in the future using an implicit interest rate.

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

Provision of services

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

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

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

The revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. When the collectability of an amount already accounted for as revenue is uncertain, the amount that can no longer be collected or the amount the collection of which ceased to be probable is recognized as an expense (provision for receivables) rather than an adjustment of the initially recognized revenue amount.

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

Rental income is recognized on a straight-line basis in the profit and loss account over the duration of the rental agreement.

Dividends and interest

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

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

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

Other provisions

If liabilities of uncertain timing or amount that meet the conditions of recognition of provisions according to IAS 37 are identified but not found in any of the above categories, other provisions are recorded.

At the end of each reporting period, the provision is remeasured and adjusted to represent the best present estimate. When the analysis shows that the outflow of resources embodying economic benefits to settle the obligation is no longer probable, the provision must be cancelled.

The 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 ACCOUNTING POLICIES (continued)

Employee benefits

The obligations representing short-term employee benefits are not discounted and are recognized in profit or loss as the related service is rendered.

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

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

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

The Group is not involved in any independent pension scheme, therefore it does not have any obligations in this regard. The Group is not involved in any post-employment benefit scheme. The Company 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 of the year

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

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

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

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

Earnings per share

IAS 33 - Earnings per Share stipulates that the entities which present both the consolidated financial statements and the separate financial statements are required to present the earnings per share only on the basis of consolidated information. If the entity chooses to present the earnings per share based on its separate financial statements, it is required to present the information about the earnings per share only in the statement of comprehensive income. In this case, the Group will present the earnings per share in the consolidated financial statements.

The Group chose to present the earnings per share in these consolidated 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 Group by the weighted average of the outstanding ordinary shares during the period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share (continued)

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

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

Segment reporting

An operating segment is a separate component of the Group, 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 Group, and is exposed to risks and benefits that are different from those of the other segments. The main format for the Group's reporting by operating segments is represented by the segmentation by activities.

As the shares of the Group 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 discrete financial information is available.

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

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

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

3. PROPERTY, PLANT AND EQUIPMENT

Cost	**Land and land improvement**	**Buildings**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in progress**	**Total**
As at December 31, 2016	**145.072.415**	**124.685.081**	**28.946.064**	**3.167.543**	**1.441.162**	**303.312.264**
Inflows of which:						
- from revaluation	-	50.546	4.670.460	258.872	1.230.334	6.210.212
Outflows of which:	-	-	-	-	-	-
- from the determination of the net amount for revaluation	-	-	(2.376.488)	(16.199)	(443.057)	(2.835.744)
- revaluation decrease	-	-	-	-	-	-
As at June 30, 2017	**145.072.415**	**124.735.627**	**31.240.036**	**3.410.216**	**2.228.439**	**306.686.732**

Accumulated depreciation	**Land and land improvement**	**Buildings**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in progress**	**Total**
As at December 31, 2016	**277.213**	**335.295**	**4.287.520**	**333.793**	**-**	**5.233.821**
						-
Depreciation for the year	12.917	2.094.505	3.340.303	515.750	-	5.963.475
Accumulated depreciation for outflows of which:	-	-	(457.645)	(141.759)	-	(599.404)
- from the determination of the net amount for revaluation	-	-	-	-	-	-
As at June 30, 2017	**290.130**	**2.429.800**	**7.170.178**	**707.784**	**-**	**10.597.892**

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment allowances	**Land and land improvement**	**Buildings**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in progress**	**Total**
As at December 31, 2016	**-**	**-**	**-**	**-**	**-**	**-**
Allowances for impairment recognized in profit or loss	-	-	-	-	-	-
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	-	-
As at June 30, 2017	**-**	**-**	**-**	**-**	**-**	**-**
Net book value						
As at December 31, 2016	**144.795.202**	**124.349.786**	**24.658.544**	**2.833.750**	**1.441.162**	**298.078.444**
As at June 30, 2017	**144.782.285**	**122.305.827**	**24.069.858**	**2.702.432**	**2.228.439**	**296.088.840**

(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, 2015	**119.797.935**	**81.528.447**	**36.574.839**	**5.479.880**	**1.694.592**	**245.075.693**
Inflows of which:	-	78.500	1.265.704	184.889	988.515	2.517.608
- from revaluation	-	-	-	-	-	-
Outflows of which:	-	-	(2.630)	(150.874)	(1.055.646)	(1.209.150)
- from the determination of the net amount for revaluation	-	-	-	-	-	-
- revaluation decrease	-	-	-	-	-	-
As at June 30, 2016	**119.797.935**	**81.606.947**	**37.837.913**	**5.513.895**	**1.627.461**	**246.384.151**

Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2015	**251.379**	**3.421.548**	**9.979.271**	**2.451.989**	**-**	**16.104.187**
Depreciation for the year	12.917	1.658.930	2.475.695	412.476	-	4.560.018
Accumulated depreciation for outflows of which:	-	-	(2.630)	(3.605)	-	(6.235)
- from the determination of the net amount for revaluation	-	-	-	-	-	-
As at June 30, 2016	**264.296**	**5.080.478**	**12.452.336**	**2.860.860**	**-**	**20.657.970**

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment allowances	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2015	**-**	**-**	**-**	**-**	**98.367**	**98.367**
Allowances for impairment recognized in profit or loss	-	-	-	-	(98.367)	(98.367)
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	-	-
As at June 30, 2016	**-**	**-**	**-**	**-**	**-**	**-**
Net book value						
As at December 31, 2015	**119.546.556**	**78.106.899**	**26,595,568**	**2,892,832**	**1,596,225**	**228,873,139**
As at June 30, 2016	**119.533.639**	**76.526.469**	**25.385.577**	**2.635.035**	**1.627.461**	**225.726.181**

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Name of asset	Net book value as at June 30, 2017	Net book value as at December 31, 2016
Land com. Domnesti, Ilfov County = 67.713,56 m2	12.299.569	13.491.154
Land com. Moara Vlasiei, Ilfov County = 70.469 m2	7.680.362	8.608.599
Land str. Mitropolit Filaret 35-37 sect. 4 Bucharest = 1.595 m2	3.621.527	2.388.687
Land str. Veseliei nr. 19 sect. 5 Bucharest =16.095 m2	11.694.241	11.797.136
Real estate (cadastral parcels no.13,15,16) Calea Rahovei 266-268 Sector 5 Bucharest	39.701.295	40.004.085

The tangible assets also include assets acquired by Government grant and used in licensed activity in one of the small hydropower plants located in Brodina, Suceava County. The net carrying amount of the investment at June 30, 2017 is RON 13.858.282, of which RON 4.981.572 represents grant. For 2016, the net carrying amount of the investment at December 31, 2016 was RON 14.050.717 of which RON 5.063.181 represents grant.

At June 30, 2017 the parent-company holds 98.5% of total tangible assets of the Group.

5. INVESTMENT PROPERTY

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

According to IAS 40, this category of property is recognized as investment property. The Group selected the fair value model for the presentation of investment property in its financial statements.

As at June 30, 2017 the investment property is structured as follows:

	Jan-Jun 2017	2016
Opening balance	**7.664.546**	**2.194.374**
Inflows, of which:	-	5.525.428
fair value valuation	-	5.525.428
Outflows, of which:	-	(55.256)
fair value valuation	-	(55.256)
Closing balance	**7.664.546**	**7.664.546**

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.

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

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

Intangible assets as at December 31, 2016 are as follows:

Cost	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2016	**645.344**	**2.415.056**	**465.988**	**3.526.388**
Inflows	77.447	280.299	-	357.746
Outflows	-	-	(275.832)	(275.832)
Transfers	-	-	-	-
As at June 30, 2017	**722.791**	**2.695.355**	**190.156**	**3.608.302**

Accumulated amortization	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2016	**315.734**	**1.572.970**	**-**	**1.888.704**
Amortization for the year	87.131	174.819	-	261.950
Accumulated amortization for outflows	-	-	-	-
As at June 30, 2017	**402.865**	**1.747.789**	**-**	**2.150.654**
Net book value				
As at December 31, 2016	**329.610**	**842.086**	**465.988**	**1.637.684**
As at June 30, 2017	**319.926**	**947.566**	**190.156**	**1.637.684**

Cost	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2015	**356.826**	**2.302.492**	**12.701**	**2.672.019**
Inflows	211.228	43.805	506.249	761.282
Outflows	-	-	-	-
Transfers	-	-	-	-
As at June 30, 2016	**568.054**	**2.346.297**	**518.950**	**3.433.301**

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

6. INTANGIBLE ASSETS (continued)

Accumulated amortization	**Concessions patents licenses**	**Other intangible assets**	**Intangible assets in progress**	**Total**
As at December 31, 2015	**232.347**	**1.061.027**	**-**	**1.293.374**
Amortization for the year	33.501	257.451	-	290.952
Accumulated amortization for outflows	-	-	-	-
As at June 30, 2016	**265.848**	**1.318.478**	**-**	**1.584.326**

Impairment allowances	**Concessions patents licenses**	**Other intangible assets**	**Intangible assets in progress**	**Total**
As at December 31, 2015	**-**		**-**	
Impairment allowances recognized in profit or loss	-	-	-	-
Reversals of impairment allowances recognized in profit or loss	-		-	
As at June 30, 2016	**-**	**-**	**-**	**-**

Net book value				
As at December 31, 2015	**124.479**	**1.241.465**	**12.701**	**1.378.645**
As at June 30, 2016	**302.206**	**1.027.819**	**518.950**	**1.848.975**

7. OTHER NON-CURRENT ASSETS

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

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

	June 30, 2017	**December 31 2016**
Performance guarantees granted to customers	424.368	1.190.452
Deferred green certificates	-	1.547.641
Trade receivables scheduled on the long-term	16.835.579	14.300.538
Total	**17.259.947**	**17.038.631**

Based on the Ordonance 895/16.06.2017, the green certificates were removed from the balance sheet at 30.06.2017. The amount of RON 1.578.741 represents the counter value of 11.281 deferred green certificates.

Trade receivables scheduled on the long-term in net value of RON 16.802.169 as at June 30,2017 have been discounted at present value, and the effect of the discount amounted to RON 854.307.The short-term portion is recognized in trade receivables.

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

8. INVENTORIES

	June 30,2017	December 31, 2016
Materii prime	7.356.894	8.835.518
Materiale consumabile	1.671.623	2.193.526
Produse finite	5.197.925	4.072.140
Produse în curs de execuţie	1.551.012	2.095.608
Alte stocuri	1.199.289	2.145.191
Ajustări pentru deprecierea stocurilor	(620.664)	(1.312.063)
Total	**16.356.079**	**18.029.921**

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:

	Jan-Jun 2017	2016
Balance at the beginning of period	**1.312.063**	**1.265.916**
Increase	-	234.823
Decrease	(691.399)	(188.676)
Balance at the end of period	**620.664**	**1.312.063**

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.

9. TRADE RECEIVABLES

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

	June 30,2017	December 31, 2016
Internal trade receivables*	30.909.559	26.927.153
External trade receivables	5.594.928	8.038.254
Estimated trade receivables	574.202	1.654.838
Adjustment of internal trade receivables at present value	(512.551)	(479.967
Impairment of trade receivables	(3.901.082)	(1.623.928)
Net trade receivables	**32.665.056**	**34.516.350**

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

9. TRADE RECEIVABLES (continued)

* Internal trade receivables include performance guarantees granted to customers with maturity under one year. As at June 30, 2017 they amounted to RON 1.630.423 (December 31, 2016: RON 1.627.928).

The sale contracts or services provision contracts concluded with customers under credit facilities have been discounted at present value. The total effect of the discount at present value was RON 1.366.858 of which RON 512.551 due in one year and RON 854.307 due in more than one year (Note 7).

The balance of trade receivables from customers as at June 30, 2017 is RON 3.126.627 (December 31, 2016: RON 1.843.172) 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:

	Jan-Jun 2017	**2016**
Balance at the beginning of period	**1.623.928**	**1.533.883**
Impairment allowance	2.277.154	158.651
Decreases of impairment allowances	-	(68.606)
Balance at the end of period	**3.901.082**	**1.623.928**

Doubtful accounts or litigating customers are in amount of RON 3.905.083 as at June 30, 2017 (December 31, 2016: RON 1.646.498).

Among the uncertain clients for which it was set up provision, is KDF ENERGY S.R.L.(energy supply activity client), which went into insolvency.

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

The accounts receivable collection period has raised in 2017 to 90 days, compared to 72 days in 2016 because of the increase of sales under a supplier credit facility.

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

	Gross value as at June 30, 2017	**Provision as at June 30, 2017**	**Gross value as at December 31, 2016**	**Provision as at December 31, 2016**
Outstanding	30.225.179	-	29.138.179	-
Overdue between 1 – 30 days	1.120.889	-	3.035.113	-
Overdue between 31 – 90 days	541.744	-	378.656	-
Overdue between 90 – 180 days	126.523	-	506.012	-
Overdue between 180 – 365 days	269.139	-	354.436	-
More than 1 year	4.282.665	(3.901.083)	2.727.885	(1.623.928)
Total	**36.566.139**	**(3.901.083)**	**35.601.454**	**(1.623.928)**

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

10. OTHER CURRENT ASSETS

	June 31, 2017	December 31, 2016
Debtors	168.222	179.553
Prepaid expenses	502.527	2.642.925
Debtor suppliers	65.227	21.175
Other assets	241.116	321.873
Total	**977.092**	**3.165.527**

The accrued expenses of RON 502.527 mainly consist of rent paid in advance, insurance premiums for the civil liability of directors and various subscriptions.

Other assets also include the value of the VAT non-chargeable in amount of RON 199.925 (December 31, 2016: RON 135.936).

11. CASH AND CASH EQUIVALENTS

	June 30 2017	December 31, 2016
Petty cash	32.791	16.421
Current accounts with banks	13.801.235	21.502.666
Cash equivalents	8.430	2.341
Total	**13.221.457**	**21.521.428**

12. SHARE CAPITAL

The Group's share capital subscribed and paid up is RON 67.603.870, divided into 676.038.704 shares at nominal value 0.10 RON/share, fully paid-up and belongs to the parent.

The structure of the shareholders that own over 10% of the share capital as at June 30, 2017 is the following, according to the Central Depositary Register:

	June 30, 2017		December 31, 2016	
SHAREHOLDER	**No. of shares**	**%**	**No. of shares**	**%**
Asociaţia PAS	200.302.763	29,6289	200.302.763	29,6288
SIF Oltenia SA	171.717.594	25,4006	171.672.301	25,3939
Natural persons	194.013.369	28,6986	193.778.348	28,6638
Legal persons	110.004.978	16,2720	110.285.292	16,3135
Total	**676,038,704**	**100**	**676,038,704**	**100**

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

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

13. RESERVES

Legal reserve

	Jan-Jun 2017	2016
Balance at the beginning of the period	**34.422.742**	**56.866.046**
Increases	-	273.331
Reductions	(211)	(22.716.635)
Balance at the end of the period*	**34.422.531**	**34.422.742**

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

* The allowance for inflation following the application of IAS 29 to this reserves amounts to RON 24.020.209 at June 30, 2017 (December 31, 2016: 24.020.209).

Revaluation reserves amount to RON 88.034.522 as at June 30, 2017. They increased compared to the balance at the beginning of the year because of the revaluation.

	Jan-Jun 2017	2016
Balance at the beginning of the period	**88.968.568**	**21.250.447**
Increases	681.290	81.651.288
Reductions	(1.615.336)	(14.148.228)
Balance at the end of the period	**88.034.522**	**88.753.507**

At June 30, 2017 the Group has **other reserves** amounting to RON 62.261.648 of which reserves for own sources of founding represent 98%.

	Jan-Jun 2017	2016
Balance at the beginning of the period	**57.834.598**	**58.089.051**
Increases	4.427.050	18.878
Reductions		(273.331)
Balance at the end of the period	**62.261.648**	**57.834.598**

14. RETAINED EARNINGS

As at June 30, 2017 the retained earnings arising from the transfer of reserves from revaluation related to depreciated or decommissioned assets was in amount of RON 1.615.336.

The parent’s profit of the year 2016 was covered in the year 2017 according to the decision of the general meeting of shareholders of April, 26 2017 from the allowance for inflation according to IAS 29 upon the adoption of IFRS.

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

15. INVESTMENT SUBSIDIES

	Total	**Within one year**	**In more than one year**
Investment subsidies as at June 30, 2017	4.981.572	163.219	4.818.353

	Total	**Within one year**	**In more than one year**
Investment subsidies as at December 31, 2016	5.063.181	163.219	4.899.962

In 2012, the Group benefited from an investment subsidy of RON 5.997.788 granted for the modernization of the micro-hydro power plant in Brodina (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.

16. PROVISIONS

Name	**Balance 01.01.2017**	**Inflows (set-up)**	**Outflows (write-off)**	**Balance 30.06.2017**
Provisions for performance guarantees to customers	1.462.750	-	(192.811)	1.269.939
Provisions for risks and charges	4.500	-	(4.500)	-
Provision for employees' benefits	365.885	-	(257.282)	108.603
TOTAL	**1.833.135**	**-**	**(454.593)**	**1.378.542**

The parent 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.

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

17. TRADE AND OTHER PAYABLES

	June 30, 2017	**December 31, 2016**
Internal trade payables	8.426.061	16.067.057
External trade payables	3.309.358	2.857.934
Estimated trade payables	2.337.928	1.859.924
Total	**14.073.347**	**20.784.915**

	June 30, 2017	**December 31, 2016**
Advances received from customers	541.392	645.602
Salaries and social security contributions	2.622.865	3.636.730

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

17. TRADE AND OTHER PAYABLES(continued)

Deferred income	-	1.548.974
Other payables	12.745.834	10.980.000
Total	**29.983.439**	**37.596.221**

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

The liability settlement period decreased to 59 days in 2017 compared to 62 days in 2016.

The Group does not have significant outstanding trade payables.

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

The Group did not have long-term loans at June 30, 2017.

The Group has several loan agreements approved as at June 30, 2017. Their status is presented in Note 27 to these financial statements. There were no outstanding liabilities related to loans as at June 30, 2017.

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

The guarantees received as at June 30, 2017 amount to RON 2.748.071 and will be settled according to the contractual terms.

	Total	**Within one year**	**In more than one year**
Guarantees received	2.748.071	1.312.395	1.223.393

18. INCOME

	Jan-Jun 2017	**Jan-Jun 2016**
Income	**98.582.027**	**113,036,020**
- Income from sold production	40.305.957	47.287.551
- Rental income	7.270.037	7.321.706
- Income from sale of goods	51.006.033	58.426.763
Investment income	**4.695**	**(28.654)**
- Interest income	4.695	12.923
- Other net investment income	(41.577)	(41.577)
Variation in inventories of finished goods and work in progress	5.103.659	7.440.417
Own work capitalized	1.149.972	881.924
Other net income	**3.162.750**	**2.479.258**
- Income from subsidies	2.345.372	1.567.505

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

- Net provisions	524.896	631.884
- Net foreign exchange difference	3.893	(93.736)
- Other income	288.589	373.605
Net income	**108.003.103**	**123.808.965**

The revenue from sale of goods decreased in 2017 by 13% due to reduced customer portfolio in the licensed activity.

19. EXPENSES

	Jan-Jun 2017	Jan-Jun 2016
Expenses related to materials	**77.384.460**	**78.470.601**
- Raw materials and consumables	23.886.393	26.758.144
- Goods purchased for resale	52.316.844	50.524.986
- Electricity, heating and water	1.181.223	1.187.471
Employee-related expenses	**18.372.731**	**16.892.968**
- Salaries	15.119.451	13.842.885
- Other employee-related expenses	3.253.280	3.050.083
Other expenses	**12.584.286**	**18.004.157**
- Post	131.038	170.877
- Maintenance expenses	286.870	216.436
- Rentals	79.485	165.134
- Advertisement and entertainment	165.523	203.883
- Insurance	295.382	289.911
- Transport and travel	599.344	909.771
- Subcontracted work	2.392.607	5.017.040
- Other taxes	723.635	610.726
- Consultants and collaborators	735.539	1.070.352
- Costs of green certificates	3.933.281	6.583.096
- Other operating expenses	3.241.581	2.766.931
Expenses related to depreciation and impairment	**8.034.773**	**5.089.092**
- Depreciation	5.756.962	4.850.970
- Net impairment	2.277.811	238.122
Total expenses	**116.376.251**	**118.456.818**

Expenses related to merchandise decreased because the volume of electricity transactions decreased as well.

20. FINANCIAL EXPENSES

	Jan-Jun 2017	Jan-Jun 2016
Interest expenses	26.117	75.757
Bank charges	309.206	581.935
Total financial expenses	**335.323**	**654.692**

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

21. INCOME TAX

Income tax recognized through profit or loss:

	June 30, 2017	June 30, 2016
Current income tax		
Current income tax expenses	20.070	330.566
Deferred income tax	317.262	(62.936)
Deferred income tax expenses/income		
	337.332	**267.630**

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

Caption	**30 iunie 2017**	**30 iunie 2016**
Net accounting (loss)/profit	**(8.708.471)**	**4.748.269**
Deductions	(3.587.582)	(4.692.433)
Non-taxable income	(861.947)	(11.038.481)
Non-deductible expenses	8.690.000	15.682.008
Taxable (loss)/profit	(4.467.400)	1.687.105
Tax loss from previous years	-	(3.017.262)
Current income tax	-	330.566
Income tax reduction	-	-
Income tax due at the end of period	**-**	**330.566**

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

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

	Opening balance Restated	Through profit or loss	Through other comprehensiv e income	Closing balance
Property, plant and equipment	(18.313.956)	(629.191)	708.711	(18.234.436)
Receivables	259.828	369.403	-	629.231
Impairment of receivables	209.930	(16.307)	-	193.623
Employee-related benefits	58.542	(41.166)	-	17.376
TOTAL	**(17.785.656)**	**(317.261)**	**708.711**	**(17.394.207)**

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.

22. AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

June 30, 2017	December 31, 2016
657	652

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

Group		
Parent	593	583

22. AVERAGE NUMBER OF EMPLOYEES (continued)

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

	June 30, 2017	**December 31, 2016**
Expenses related to salaries	15.119.451	13.842.885
Expenses related to social security contributions	3.853.280	3.050.083
Total	**18.372.731**	**16.892.968**

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

23. RELATED PARTY TRANSACTIONS

At June 30, 2017 and December 31, 2016, the Group had no related parties apart from the subsidiaries included in the consolidation. Balances and transactions with them were eliminated in the preparation of the consolidated financial statements.

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

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

24. INFORMATION ON SEGMENTS OF ACTIVITY

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

- Licensed activity – electricity supply and production
- Unlicensed activity

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

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

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

24. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Semester I 2017	Unlicensed activity	% Total Group	Licensed activity	% Total Group	Total Group
Net profit	(1.825.004)	100,0	(7.220.799)	n/a	(9.045.803)
Total assets	311.737.253	80,81	74.040.959	19,19	385.778.212
Total liabilities	38.553.699	70,01	16.516.284	29,99	55.069.983
Customer revenue	5.460.485	9,42	52.498.007	90,58	57.958.497
Interest income	4.695	100	-	n/a	4.695
Impairment and depreciation	6.893.431	85,75	1.145.342	14,25	8.038.773

Semestrul I 2016	Unlicensed activity Restated	% Total Group	Licensed activity	% Total Group	Total Group Restated
Net profit	5.148.854	100,0	(408.576)	n/a	4.760.278
Total assets	233.007.649	73,06	85.914.880	26,94	318.922.529
Total liabilities	23.106.270	48,74	24.300.353	51,26	47.406.623
Customer revenue	54.051.551	47,82	58.984.469	52,18	113.036.020
Interest income	12.923	100	-	-	12.923
Impairment and depreciation	3.712.346	72,95	1.376.746	27,05	5.089.092

Production activity

Production recorded an overall decrease of 11.9%. Among the groups of products representing a large share, an increase was recorded for LED lighting units (4.3%), low voltage switchgear (30%) and energy production in micro-hydroelectric plants (40.6%), while meters and tele-management systems recorded a decline of 81.5% and the railway safety systems a decline of 70%. Injection mould plastics and moulds maintained at the same level.
In terms of sales markets, the sales in the domestic market decreased by 20%, being directly influenced by the deferral of some tenders for electricity meters and by the failure of the railway infrastructure upgrade investment. Exports increased by 21.9%, as orders exceeded their average number.

The electricity supply was carried out in a difficult market, marked by record purchase prices in the beginning of the year and by the insolvency of an energy supplier (KDF Energy), one of the company's debtors, owing it approximately 2 million Lei. The unfavorable market context forced the company to continue the restructuring of its customer portfolio, which led to a 13.4% decline of its turnover as compared to the same period of 2016.

The renting and utility supply services maintained their recorded revenues. The total area available for renting was slightly decreased following the reorganization of certain production spaces. The influence on the rental income was offset by the appreciation of the Euro. The rented spaces are located not only in buildings exclusively meant for renting, but also in mixed-use buildings, namely for production and renting

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

25. RISK MANAGEMENT

The Group is exposed to the following risks:

Equity risk

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

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. It should be mentioned that from the end of the financial year 2016 until the date of this report several electricity suppliers became or declared to be insolvent. Therefore, we can speak about a deterioration of the business environment and a direct manifestation of the credit risk.

	June 30,2017	December 31,2016
Trade receivables	32.665.056	34.516.350
Other receivables	977.092	3.165.527
Financial assets at fair value through profit or loss	-	-
Cash and cash equivalents	13.221.457	21.521.428
	46.863.605	**59.203.305**

Market risk

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

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

The Company is exposed to **foreign exchange risk** because the supply of materials mainly comes from import and the share of exports increased. To limit the effect of foreign exchange, the payment schedule was correlated with the proceeds in foreign currency, the Group usually recording cash-flow surplus. The Group monitors and manages on a permanent basis its exposure to exchange rate differences.

The foreign currencies most frequently used in transactions are EUR and USD. The assets denominated in foreign currencies are represented by customers and available cash in foreign currency. The liabilities denominated in foreign currency are represented by suppliers. At 30 June 2017, their situation is as follows:

	Assets	Liabilities	Net exposure
EUR	2.952.209	676.024	2.276.185
USD	58.755	38.754	20.001

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

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 1.043.707

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

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

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

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

Liquidity and cash flow risk

The Group’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. To this effect, the decision of the general meeting of shareholders of April 26, 2017 extended the mortgage agreements in favor of the banks with which the Group has opened credit lines and letters of bank guarantee within the limit of 40% of the total fixed assets, less receivables, to ensure the Group’s capacity to perform its obligations in case of short-term cash deficit. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover.

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

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

	December 30, 2017	**Exceeded**	**0 - 1 year**	**1 - 2 years**	**2 - 5 years**	**In more than 5 years**
Trade receivables	32.665.056	2.439.977	13.387.540	6.368.481	10.469.058	-
Trade liabilities	14.073.347	997.950	13.030.114	30.968	14.315	-

Political and legislative risk

The Group’s activity on regulated markets, such as the electricity supply and production market, exposes the Group to a legislative risk. For instance, the energy market was influenced by the price changes which stimulated the export of energy.

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

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

Disaster risk

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

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

The fair value of financial instruments

Fair value is the amount at which the financial instrument can change in arm's length ordinary transactions between interested and knowleadgeable parties, other than those caused by liquidation or forced sale. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. As at June 30, 2017 and December 31, 2016, management believes that the fair values of cash and cash equivalents, trade receivables and other receivables, trade payables and other current liabilities approximate their carrying amounts.

June 30, 2017	**Net value**	**Fair value**	**Level**
Financial assets			
Trade receivables	32.665.056	32.665.056	Level 1
Cash and cash equivalents	13.221.457	13.221.457	Level 1
Other current assets	977.092	977.092	Level 1
	46.863.605	**46.863.605**	

June 30, 2017	**Net value**	**Fair value**	**Level**
Non-current financial liabilities			
Trade and other payables	1.223.393	1.223.393	Level 1
	1.223.393	**1.223.393**	
Current financial liabilities			
Trade payables	28.760.046	28.760.046	Level 1
	28.760.046	**28.760.046**	

December 31, 2016	**Net value**	**Fair value**	**Level**
Financial assets			
Trade receivables	34.516.350	34.516.350	Level 1
Assets at fair value	21.521.428	21.521.428	Level 1
Cash and cash equivalents	3.165.527	3.165.527	Level 1
Other current assets	**59.203.305**	**59.203.305**	
	34.516.350	34.516.350	Level 1

December 31, 2016	**Net value**	**Fair value**	**Level**
Non-current financial liabilities			

Trade and other payables	2.784.610	2.784.610	Level 1
	2.784.610	**2.784.610**	
Current financial liabilities			
Trade and other payables	34.811.611	34.811.611	Level 1
	34.811.611	**34.811.611**	

General framework for risk management

The Board of Directors of the Group has the general responsibility for the establishment and supervision of the risk management framework at Group level. The activity is governed by the following principles:

a. the principle of delegation;

b. the principle of decision-making autonomy;

c. the principle of objectivity;

d. the principle of investor protection;

e. the principle of promotion of stock market development;

f. the principle of proactivity.

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

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

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

26. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

As at June 30, 2017, the Group had the following commitments for bank loans and guarantee agreements/loan contracts concluded with the financing banks (BCR, BRD):

- revocable credit line from BCR in amount of RON 9,000,000, not committed as at June 30, 2017.

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

- non-cash guarantee agreement with BCR in amount of RON 30.000.000 of which the amount of RON 24.349.940 was committed, as at June 30, 2017.

Guarantees: 3rd rank mortgage on the accounts opened with BCR, 1st and 2nd rank mortgages on some real estate

- multiproduct credit facility with BRD (cash and non-cash) in amount of RON 20.000.000 of which non-cash committed as at June 30, 2017 in amount of RON 5.226.480 lei and cash 291.939 lei.

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

- guarantee agreement authorized overdraft of RON 15.000.

Guarantees: collateral cash deposit in amount of RON 15.000

- guarantee agreement authorized overdraft in amount of RON 75.000.

Guarantees: collateral cash deposit in amount of RON 75.000

The commitments from customers and tenants as letters of guarantee June 30, 2017 are in amount of RON 284.307 according to the contractual clauses.

26. COMMITMENTS AND CONTINGENT LIABILITIES(continued)

Contingent liabilities

Litigation

The Company is subject to a number of legal proceedings arising in the normal course of business. Its management believes that apart from the amounts already registered in these financial statements as adjustments or provisions for impairment of assets and described in the notes to this financial statements, other legal proceedings will not have significant adverse effects on the results and on the financial position of the company

During the reporting period, Electromagnetica filed an application for annulment of decision no 82/24.12.2015 of the Competition Council and order no 297/23.2012 of the Competition Council President, which are the subject of files no 3778/2/2016 and no 3809/2/2016 at the Bucharest Court of Appeal, file no 3809/2/2016 being joined to file 3778/2/2016, and an application for suspension of execution of decision no 82/24.12.2015 of the Competition Council which is the subject of file no 3779/2/2016 at the Bucharest Court of Appeal. Electromagnetica filed appeal against the decision of the Court of Appeal which rejected the application for suspension of the decision to sanction.

Also, the Company has opened a court action relating to the contract for the supply of electricity from Hidroelectrica (file no. 13259/3/2015) for January 2011-June 2012, with the object of claims, in which Hidroelectrica is plaintiff and Electroamagnetica is defendant. At the plaintiff's request, the evidence by accounting expertise was submitted, and the report is favorable to the Company. The claim was rejected as unfounded, the solution has not been communicated to this moment.

The management believes that it is not possible to reliably estimate the outcome of this lawsuit, therefore, in the financial statements no provision has been recorded.

ELECTROMAGNETICA SA

Half-Yearly Report of the Board of Directors

under Regulation no. 1/2006 of the National Securities Commission

Unaudited interim financial statements

for the six month-period ended on 30 June 2017

11 August 2017

Identification data

Date of the report:	11 August 2017
Company name:	SC Electromagnetica SA
Registered office:	266-268 Calea Rahovei Street, District 5, Bucharest
Telephone/fax:	tel 021.404.2102, fax:021.404.2195
Sole registration code:	414118
Trade Register no.:	J40/19/1991
Subscribed and paid capital:	LEI 67,603,870.40
Regulated market:	Bucharest Stock Exchange, Shares, Category I
Stock symbol:	ELMA

Financial statements auditing

The individual and consolidated financial statements of Electromagnetica SA for the first six months of 2017, prepared in accordance with the applicable national regulations, have not been audited.

Declaration regarding the perspectives

The forecasts and estimations of the company management are expressed in relation to the current ones and subject to certain risks and uncertainty factors which in future might change the perspectives of the financial results and achievements of the company.

1. Economic and financial standing of Electromagnetica SA

a) The financial position for the first semester of 2017 is the following:

- Lei -

	30 June 2017	31 December 2016
ASSETS		
Total non-current assets	**317,961,840**	**319,773,830**
Current assets, of which		
Inventories	15,188,329	17,407,304
Trade receivables	32,257,996	33,977,526
Cash and cash equivalents	9,600,203	17,822,290
Total current assets	**58,414,888**	**72,380,121**
Total assets	**376,376,728**	**392,153,952**

	30 June 2017	31 December 2016
EQUITY AND LIABILITIES		
Total equity attributable to company shareholders	**322,481,509**	**330,551,942**
Total non-current liabilities	**22,892,647**	**24,926,082**
Total current liabilities	**31,002,572**	**36,675,928**
Total equity and liabilities	**376,376,728**	**392,153,952**

The following conclusions can be drawn from the above information:

As a whole, the non-current assets decreased by 0.6% in the first semester of 2017, as a result of depreciation of buildings, technological equipments, appliances and machinery used for the production activity, their value exceeding the non-current asset inputs, concurrently with a decrease of intangible assets and an increase of other non-current assets (long-term trade receivables +14%). Furthermore, deferred green certificates in amount of 1.6 million Lei were registered off-balance, according to the requirements of Order no. 895/16 June 2017 of the Ministry of Finance. During the first half of the year, there were tangible asset inputs resulted from investments in the modernization of technological manufacturing processes. The investments were made from own financing resources.

The total current assets decreased by 19.3% as compared to the beginning of the period, under the influence of the decreasing cash levels, inventories and trade receivables. It should be noted that the trade receivables value was adjusted by approximately 2 million Lei in relation to customer KDF Energy SRL which has become insolvent. The cash levels at the end of the first semester of 2017 decreased by 46% as compared to the beginning of the year, mainly as a result of the loss suffered and the higher rate of contracting through supplier credit.

A slight decrease of 2.4% was recorded in equity, resulting from the negative result achieved in the first semester.

As at 30.06.2016 the company had no long-term loans contracted. The other long-term liabilities maintained at a low level, which was 8% less than at the end of 2016.

The current liabilities decreased by 15.5%, due a reduction of the trade payables.

The current liquidity decreased up to 188% during the first six months of 2017, a sufficient level for the company to carry out its business in good conditions, while it maintained a high solvency level of 85%

b) The profit and loss statement and other elements of the comprehensive income of the company for the first half of 2017 is the following:

	6-month period ended on 30 June 2017	6-month period ended on 30 June 2016
Revenues	97,684,978	112,031,106
Revenues from investments	429,525	345,005
Other net revenues	3,167,656	2,526,302
Variation of finished product inventories and production in progress	5,103,659	7,440,417
Work performed and capitalized	1,149,972	881,924

	6-month period ended on 30 June 2017	6-month period ended on 30 June 2016
Raw materials and consumables used	(76,935,676)	(78,110,072)
Personnel expenses	(17,134,640)	(15,740,161)
Expenses with depreciation and impairment loss	(7,904,945)	(4,957,468)
Other expenses	(13,672,828)	(19,005,139)
Financial costs	(327,085)	(326,788)
Profit/(Loss) before tax	**(8,439,385)**	**5,085,126**
Corporation tax	(317,262)	(216,228)
Profit/(Loss) for period	**(8,756,647)**	**4,868,898**

The elements which influenced the profit in the first six months of 2017 were:

- The electricity supply business, though resized following the restructuring of the customer portfolio, was affected by purchase price developments in the Day before market in the period February-March, when they reached extreme levels. The major loss recorded by the company during the first semester was due to its electricity supply business.
- The production volume decreased by more than 11.9%, in the context of deferral of some tenders and infrastructure investment projects.
- The negative dynamics of the product groups made by Electromagnetica.

No business segment was sold or stopped by the company during the first semester of 2017 and no such changes are estimated.

Both the EBIT margin and the EBITDA margin had registered negative values of -8.52%, respectively -1.19%.

The company took steps to recover the loss, by ensuring energy supply sources for the following period, in terms of profitability, as well as by extending the sale of LED lighting units and other groups of products.

Dividends. According to the resolution adopted by the Ordinary General Meeting of Shareholders (AGOA) 26 April 2017, the company did not distribute dividends. Following the resolution adopted by the Extraordinary General Meeting of Shareholders (AGEA) held on 26 April 2017, the dividends for the financial years 2003, 2010, 2011, 2012 and 2013, which remained unclaimed until 21 July 2017, shall be prescribed. Those dividends were accounted for revenues in the financial year 2017. The contract with the Central Depository for the distribution of dividends for the previous years (2010-2014) was extended until 21 July 2017.

c) cash flow

	6-month period ended on 30 June 2017	6-month period ended on 30 June 2016
Net cash used in operating activities	(6,120,444)	(1,799,375)
Net cash used in investment activities	(2,381,910)	(265,605)
Net cash used in financing activities	280,266	(19,287)
Cash and cash equivalents net decrease	(8,222,088)	(2,084,267)

	6-month period ended on 30 June 2017	6-month period ended on 30 June 2016
Cash and cash equivalents at the beginning of period	17,822,290	13,890,488
Cash and cash equivalents end of period	9,600,202	11,806,221

As far as the cash flows are concerned, the following should be specified:

- The operating activity recorded a deficit of 6.1 million Lei at the end of the reporting period.
- Credit lines were accessed to a less extent than in the same period of 2016. Until 30.06.2017, the withdrawals from credit lines were fully repaid.
- During the first semester of 2017 the level of investment was higher than in the same period of 2016, reaching 2.58 million Lei, representing investment in machinery.

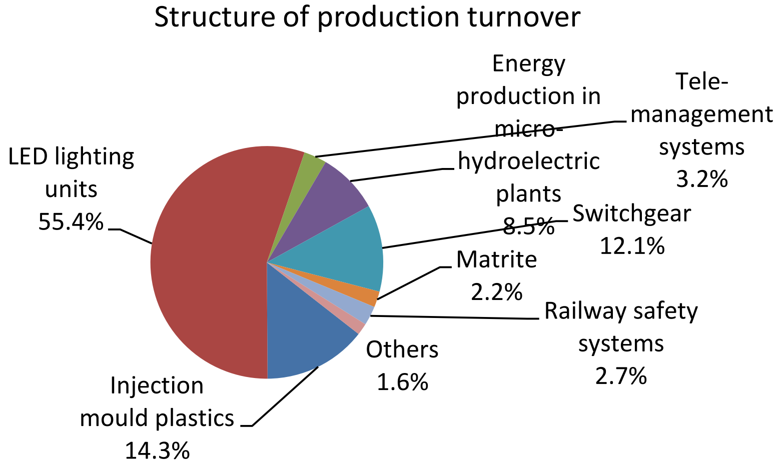
2 Analysis of the business operation of Electromagnetica SA

2.1. Description and analysis of trends, elements, events or uncertainty factors that affect or could affect company liquidity

The company business is focused on the energy sector, through the following activities: electricity supply, production of LED lighting systems (for energy efficiency improvement), manufacture of power distribution and metering equipment and production of electricity from renewable sources in the 10 micro-hydroelectric plants (production which benefits from green certificates). The production with a large export share is also a priority for the company, i.e. low voltage switchgear, test equipment and tools and moulds, injection mould plastics, steelwork, various subassemblies. The aforementioned are supplemented by other industrial products and services for the domestic market, among which the production of railway safety systems and the renting and utility supply services.

During the last semester, both production and services registered a decrease in turnover, so that the global turnover was approximately 12% lower than in the same period of 2016. The 43% production share in the total turnover remained unchanged. The trends of each activity separately are described below:

Production activity



Production recorded an overall decrease of 11.9%. Among the groups of products representing a large share, an increase was recorded for LED lighting units (4.3%), low voltage switchgear (30%) and energy production in micro-hydroelectric plants (40.6%), while meters and tele-management systems recorded a decline of 81.5% and the railway safety systems a decline of 70%. Injection mould plastics and moulds maintained at the same level.

In terms of sales markets, the sales in the domestic market decreased by 20%, being directly influenced by the deferral of some tenders for electricity meters and by the failure of the railway infrastructure upgrade investment. Exports increased by 21.9%, as orders exceeded their average number.

The electricity supply was carried out in a difficult market, marked by record purchase prices in the beginning of the year and by the insolvency of an energy supplier (KDF Energy), one of the company's debtors, owing it approximately 2 million Lei. The unfavorable market context forced the company to continue the restructuring of its customer portfolio, which led to a 13.4% decline of its turnover as compared to the same period of 2016.

The renting and utility supply services maintained their recorded revenues. The total area available for renting was slightly decreased following the reorganization of certain production spaces. The influence on the rental income was offset by the appreciation of the Euro. The rented spaces are located not only in buildings exclusively meant for renting, but also in mixed-use buildings, namely for production and renting.

The most important **uncertainty factors** are the following:

- the high volatility of prices in the energy market;
- the volume of domestic and export orders, which makes the medium- and long-term production less predictable;
- the level of precipitations, with a direct influence on our own electricity production;
- the dynamics of the local market of LED lighting units and the competition of the imported products;
- the debt recovery timescale; approximately 34% of the company's claims have a collection time limit of more than 1 year.
- the risk of insolvency appeared for certain customers;

- the exchange rate, the imports of materials etc.

2.2. Description and analysis of the effects of all current or expected capital expenditure **on the company financial standing**

The investments for the first semester of 2017 totalized 2.58 million Lei, money which was used for the purchase of technological equipment. The investments were made from the company's own funds. In comparison with the similar period of the previous year, the value of investments was higher.

2.3. Description and analysis of any events, transactions, economic changes that significantly affect core earnings

The previous regular reports indicate that certain groups of products, such as energy metering and tele-management systems or the railway safety systems may register extensive fluctuations of incomes from one period to another, depending on the pace at which our customers initiate or complete investment programs or launch tenders. Therefore, the changes occurred in the production structure are inherent and they do not necessarily represent a long-term trend.

The electricity supply business, as restructured in the last eighteen months, reached an appropriate size for the current market conditions, where risk control is more effective.

3. Changes with impact on the capital and management of Electromagnetica SA

3.1. Description of the circumstances in which the company could not fulfill its financial obligations during the respective period

N/A

3.2. Description of any change in terms of security holder rights issued by the company

N/A

4. Significant transactions

N/A.

5. Information on consolidated results

In the first semester of 2017, there was no change in the interests of Electromagnetica in its subsidiaries (Electromagnetica Goldstar SRL, Procetel SA, Electromagnetica Fire SRL and Electromagnetica Prestserv SRL) or in their governing structures.

AGEA Electromagnetica held on 26 April 2017 decided the early dissolution of its subsidiaries Electromagnetica Goldstar SRL and Procetel SA.

The companies under Electromagnetica's control have a little influence on the profit before tax after consolidation, as their transactions are mostly made with their parent company.

- Lei -

	30 June 2017	31 December 2016

	Group	Parent company	%	Group	Parent company	%
Non-current assets	322,470,981	317,961,840	98.60%	324,419,304	319,773,830	98.57%
Current assets	63,307,231	58,414,888	92.27%	77,233,226	72,380,121	93.72%
Equity	330,500,299	322,481,509	97.57%	338,883,343	330,551,942	97.54%
Long-term liabilities	24,768,176	22,892,647	92.43%	25,470,228	24,926,082	97.86%
Current liabilities	30,301,807	31,002,572	102.31%	37,083,898	36,675,928	98.90%
Profit before tax	-8,708,471	-8,439,385	96.91%	7,390,550	5,234,213	70.82%
Profit for period	-9,045,803	-8,756,647	96.80%	6,379,995	4,327,847	67.83%

6. Financial reporting calendar for 2017

11 August 2017: Publication of the financial results for the first six months of 2017; Meeting with analysts

15 November 2017: Publication of quarterly financial results – 3rd quarter 2017

7. Signatures

Eugen Scheusan, **Ilie Frasineanu**

BoD Chairman / Managing Director **Business Manager**

Declaration of the responsible persons

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

a) they give a true and fair view of the assets, liabilities, financial position, profit and loss account of the company and its affiliates, included in the process for financial statement consolidation;

b) they provide complete and correct information about the issuer;

Managing Director
Eugen Scheusan

Chief of financial and accounting department
Cristina Florea

Signed on behalf of
CFO
Ilie Frasineanu