

**S.C. ELECTROPUTERE S.A.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
TOGETHER WITH ADMINISTRATORS' REPORT
AND
THE INDEPENDENT AUDITOR'S REPORT**

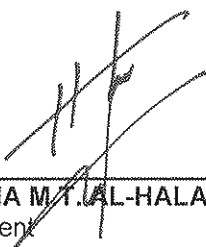
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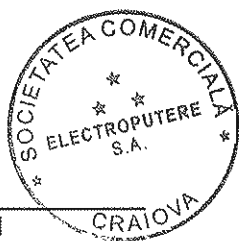
S.C. ELECTROPUTERE S.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

	Note	Year ended December 31, 2014	Year ended, December 31, 2013 (*)
Revenue	4	132,652,240	96,397,312
Cost of sales	5	<u>(111,935,854)</u>	<u>(96,712,558)</u>
Gross profit / (loss)		<u>20,716,386</u>	<u>(315,246)</u>
Administrative expenses	9	(23,050,275)	(32,018,637)
Other operating expenses	7	(4,253,687)	(4,871,327)
Distribution expenses		(9,572,777)	(4,706,236)
Other gains or (losses)	6	1,290,662	(4,339,256)
Finance costs	8	(21,123,044)	(20,938,788)
Finance income	8	14,654	30,963
Loss before tax		(35,978,080)	(67,158,527)
Income tax credit	10	<u>-</u>	<u>94,173</u>
Loss for the year		<u>(35,978,080)</u>	<u>(67,064,354)</u>
Other comprehensive income, net of tax			
Gain on revaluation of properties		<u>-</u>	<u>494,409</u>
Total comprehensive income		<u>(35,978,080)</u>	<u>(66,569,945)</u>
Loss per share	27	<u>(0.03)</u>	<u>(0.20)</u>

*) Certain amounts in the statement of profit or loss and other comprehensive income for the prior year have been reclassified to conform to the current year's presentation (please see Note 28)

These financial statements were authorized for issue by management on March 31, 2015.


OSAMA M. AL-HALABI
President




LAVINIA PETCU
Financial Manager

S.C. ELECTROPUTERE S.A.
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

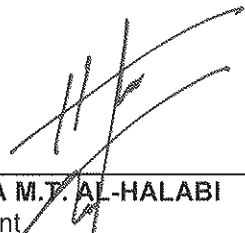
	Note	December 31, 2014	December 31, 2013
		RON	RON
ASSETS			
Non-current assets			
Property, plant and equipment	11	265,912,782	270,701,574
Intangible assets	12	1,364,984	1,392,823
Other assets	13	510,469	286,209
Total non-current assets		267,788,235	272,380,606
Current assets			
Inventories	14	12,305,924	16,045,843
Trade and other receivables	15	67,437,373	73,353,461
Other assets	13	10,815,328	7,992,229
Cash and cash equivalents	16	3,201,052	2,236,108
Total current assets		93,759,677	99,627,641
Total assets		361,547,912	372,008,247
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	17	1,055,987,861	985,987,861
Reserves	18	73,756,118	73,756,117
Accumulated deficit		(1,179,565,013)	(1,143,586,931)
Total equity		(49,821,034)	(83,842,953)
Non-current liabilities			
Borrowings	19	200,974,208	261,804,969
Other non-current liabilities		71,089	118,130
Total non-current liabilities		201,045,297	261,923,099

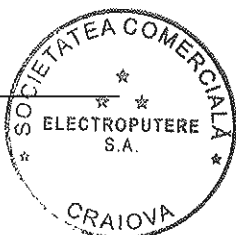
The notes attached are an integral part of these financial statements.
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S.C. ELECTROPUTERE S.A.
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

	Note	December 31, 2014 RON	December 31, 2013 RON
Current liabilities			
Trade and other payables	21	49,993,228	60,450,422
Borrowings	19	151,368,219	122,691,207
Provisions	20	6,167,873	7,502,525
Short term finance lease and other interest bearing obligations	23	-	92,959
Other current liabilities	22	2,794,329	3,190,988
Total current liabilities		210,323,649	193,928,101
Total liabilities		411,368,946	455,851,200
Total equity and liabilities		361,547,912	372,008,247

These financial statements were authorized for issue by management on March 31, 2015.


OSAMA M.T. AL-HALABI
President




LAVINIA PETCU
Financial Manager

S.C. ELECTROPUTERE S.A.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

	Year ended December 31, 2014	Year ended December 31, 2013
Cash flow from operating activities		
Net loss	(35,978,080)	(67,158,527)
<i>Adjustments</i>		
Depreciation and amortization of non-current assets	5,913,207	5,830,325
Reversal of provisions for doubtful accounts receivable	(1,079,010)	(2,018,163)
Provisions for VAT receivable	3,705,076	-
Charges to / (Reversal of) provisions for slow moving and obsolete inventories	680,311	(1,401,180)
(Reversal of) / Charges to provisions for risks and charges	(1,796,333)	2,258,872
Provisions for penalties and interests for VAT	4,248,418	-
Net gain/(loss) from sale/write off of fixed assets	678,651	(958,753)
Net interest expenses	21,137,698	20,969,751
Fixed assets from own production	(306,820)	-
Unrealized forex (gain) / loss differences	(1,477,198)	8,340,669
Loss on revaluation of land	-	2,362,051
Movements in working capital		
Decrease in trade and other receivables	466,923	15,893,597
Decrease in inventories	3,059,608	4,308,515
(Increase) of good execution guarantees granted to customers	(224,260)	(201,977)
(Decrease)/Increase in trade and other payables	(14,716,578)	16,993,494
Cash generated by / (used in) operations	(15,688,390)	5,218,675
Interest paid	(4,490,790)	(8,151,767)
Interest received	14,654	30,963
Cash flows from operating activities	(20,164,526)	(2,902,129)
Cash flow from investing activities		
Payments for acquisitions of property, plant and equipment and intangible assets	(1,468,767)	(992,106)
Proceeds from disposals of property, plant and equipment	-	2,283,030
Cash flows (used in) / generated by investing activities	(1,468,767)	1,290,924

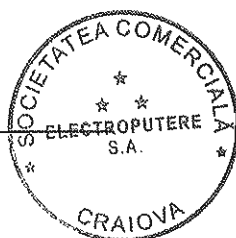
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S.C. ELECTROPUTERE S.A.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

	Year ended December 31, 2014	Year ended December 31, 2013
Cash flow from financing activities		
Increase in loans from shareholders	10,787,280	-
Increase in loans from financial institutions	11,903,916	(126,294)
Payments for leasing	(92,959)	(39,559)
Cash generated by / (used in) financing activities	22,598,237	(165,853)
Net increase / (decrease) in cash and cash equivalents	964,944	(1,777,058)
Cash and cash equivalents at the beginning of the year	2,236,108	4,013,166
Cash and cash equivalents at the end of the year	3,201,052	2,236,108

These financial statements were authorized for issue by management on March 31, 2014.


OSAMA M.T. AL-HALABI
President




LAVINIA PETCU
Financial Manager

S.C. ELECTROPUTERE S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

	Share capital	Elements similar to share capital	Other reserves	Revaluation reserves	Accumulated deficit from the transition to IFRS	Accumulated deficit	Total
Balance at January 1, 2014	33,760,291	952,227,570	60,918,636	12,837,481	(574,840,761)	(568,746,170)	(83,842,953)
Increase in share capital	70,000,000	-	-	-	-	-	70,000,000
Loss for the year	-	-	-	-	-	(35,978,080)	(35,978,080)
Other comprehensive income for the year, net of tax	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Balance at December 31, 2014	103,760,291	952,227,570	60,918,636	12,837,481	(574,840,761)	(604,724,250)	(49,821,034)

During October 2014, the share capital of the Company has been increased by RON 70,000,000 (equivalent of EUR 15,938,069) through the conversion of a portion of the shareholders loan obtained from the main shareholder AL ARRAB CONTRACTING COMPANY LIMITED. The share capital increase has been approved by the Trade Register on October 22, 2014.

These financial statements were authorized for issue by management on March 31, 2015



[Signature]
OSAMA M.T. AL-HALABI
President

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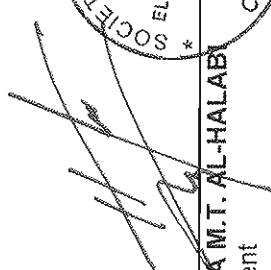
LAVINIA PETCU
Financial Manager

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S.C. ELECTROPUTERE S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

	Share capital	Elements similar to capital	Other reserves	Revaluation reserves	Accumulated deficit from the transition to IFRS	Accumulated deficit	Total
Balance at January 1, 2013	33,760,291	952,227,570	60,918,636	12,343,072	(574,840,761)	(501,681,817)	(17,273,009)
Loss for the year	-	-	-	-	-	(67,064,354)	(67,064,354)
Other comprehensive income for the year, net of tax	-	-	-	494,409	-	-	494,409
Other	-	-	-	-	-	-	-
Balance at December 31, 2013	33,760,291	952,227,570	60,918,636	12,837,481	(574,840,761)	(568,746,170)	(83,842,953)

These financial statements were authorized for issue by management on March 31, 2015


OSAMA M.T. AL-HALABI
President




LAVINIA PETCU
Financial Manager

The notes attached are an integral part of these financial statements.
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S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

1. GENERAL INFORMATION

S.C. ELECTROPUTERE S.A. (the „Entity”) is an entity set up under the Romanian law. The Entity was initially established in 1949, having its main business purpose the manufacturing of electrotechnical equipment of high currents for energy sector and railway transport, and initially structured in four main production sectors: rotative motors, power transformers, electrical devices and locomotives.

Electroputere S.A. became a holding Company on August 17, 1994 and was privatized in October 2007, Al-Arrab Contracting Company Limited being the major shareholder.

The address of the registered office of the Company is: Craiova, Bucuresti street, no 80.

The main categories of products of the Entity are: power transformers, rotative electrical engines, repairs and upgrades to equipment and installations.

During 2014 approximately 91% (2013: 81%) of sales went to export. Electroputere S.A. is listed on Bucharest Stock Exchange, having the symbol „EPT”. Its prices per share could be analyzed as follows:

	<u>2014</u>	<u>2013</u>
Minimum price	0.0481	0.0300
Maximum price	0.0485	0.0314
Average price	0.0485	0.0309

The evolution of average number of the Entity's employees was as follows:

	<u>2014</u>	<u>2013</u>
Average number of employees	729	757

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of new and revised standards and interpretations

Standards and Interpretations effective in the current period

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

- **IFRS 10 “Consolidated Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 “Joint Arrangements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 “Disclosures of Interests in Other Entities”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) “Separate Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

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

- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements” – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 32 “Financial instruments: presentation” – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 “Impairment of assets” - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- IFRIC 21 “Levies” adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

Standards and Interpretations 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 from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at March 25, 2014 (the effective dates stated below is for IFRS in full):

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2017),
- 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 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

- According to the entity's estimates, application of hedge accounting for the 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.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

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

The Entity anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (EU), as provided for by the Public Finance Minister no 1286/2012 and its subsequent amendments.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain classes of property plant and equipment and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in the exchange for assets

The principal accounting policies are set out below:

Going concern

The financial statements have been prepared on a going concern basis, under the historical cost convention adjusted for the effects of hyperinflation until 31 december 2004 for share capital and reserves, respectively equipments.

As at December 31, 2014, the Company recorded an accumulated loss in the amount of RON 1,179,565.013, negative net assets in the amount of RON 49,821,034, net current liabilities in amount of RON 116,563,972 and the loss for the year then ended amounts to RON 35,978,080. These matters indicate an uncertainty regarding the Company's ability to continue as a going concern and an increased liquidity risk. In addition, according to statutory commercial law 31/1990, revised, in the event where the administrators ascertain that, further to incurring losses, the net assets, calculated as the difference between total assets and total liabilities of the Company, are less than half the value of the share capital, the administrators shall convene the general meeting of shareholders to decide whether to increase the share capital or to reduce it to the remaining value or to dissolve the Company. Management believes that it is unlikely that the Company will be subject to dissolution procedures in the future. As a result, the Company's capacity to continue as a going concern depends on its ability to generate sufficient future income and on the financial support from its shareholders. Management believes that such a support will be available whenever necessary. These financial statements do not include adjustments that might arise from this uncertainty regarding the ability of the Company to continue as a going concern.

The principal accounting policies are presented below:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced by estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of goods (continued)

- The Entity 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 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.

Specifically, revenue from sale of goods is recognized when goods are delivered and legal title is passed. Revenues from the sale of power transformers are recognized using the principles of the construction contracts.

Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognized by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees included in the price of products sold are recognized by reference to the proportion of the total cost of providing the servicing for the product sold; and
- revenue from time and material contracts is recognized at the contractual rates as labour hours and direct expenses are incurred.

Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Entity and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Construction contracts

In accordance with the provisions of IAS 11, when the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative for the stage of completion.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately and the Company records provisions for onerous contracts.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts, where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the statement of financial position under trade and other receivables.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Entity's as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Entity's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Entity's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Entity as lessee

Assets held under finance leases are initially recognized as assets of the Entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Entity's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

The Company's operations are in Romania and the functional currency is RON.

In preparing the financial statements of the Entity, transactions in currencies other than the Entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The official conversion rates used to convert foreign currency denominated balance sheet items at the end of the reporting periods were as follows:

- December 31st, 2013: 3.2551 RON/USD and 4.4847 RON/EUR;
- December 31st, 2014: 3.6868 RON/USD and 4.4821 RON/EUR;

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss account in the period in which they are incurred.

Employee benefits

The Entity, in the normal course of business, makes payments to the Romanian State on behalf of its employees for pensions, health care and unemployment cover. The cost of these payments is charged to profit or loss account in the same period as the related salary cost.

The Entity pays employees retirement benefits, benefits which are defined in the Collective Labor Agreement of the Entity.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in the profit or loss account, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Statutory income tax rate for the year ended December 31, 2014 was 16% (December 31, 2013:16%).

Property, plant and equipment

Each asset with an acquisition cost exceeding RON 2,500 and estimated useful life of over one year are capitalized. Fixed assets with an acquisition cost lower than RON 2,500 are recorded as an expense.

Cost

The Entity's land and buildings were presented at the date of the transition to International Financial Reporting Standards based on deemed cost, which is equal to the market value of these assets at the date of the transition determined based on a revaluation carried out by an independent appraiser. Subsequently the land and buildings held by the Company have been revalued and are carried in the financial statements at revalued cost. At December 31, 2013 the buildings and land have been revalued by an independent appraiser, member of ANEVAR organization.

The Entity's equipments were presented at the date of transition to International Financial Reporting Standards at initial cost on which general price indexes have been applied for the period 1990 – 2003, during which Romania was a hyperinflationary economy.

The expenses with the major improvements are capitalized, based on the criteria whereas they extend the operating life of asset or lead to a significant increase in its ability to generate revenue. Cost of maintenance, repair and minor improvements are shown on expenses when they are carried out.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss account, in which case the increase is credited to profit or loss account to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recorded in profit or loss account to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. On subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at the value presented above, deducting any accumulated amortization and any subsequent impairment allowance.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Assets in course of construction to be used for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees, and, for qualifying assets, borrowing costs capitalised in accordance with the International Financial Reporting Standards. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continue use of the asset.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

Depreciation and amortization

Property, plant and equipment and intangible assets are depreciated/amortized on a straight line basis, according to their estimated useful lives since the date of put in function, so that the cost to be decreased to the estimated residual value at the end of their useful live. The main useful lives for the various categories of property, plant and equipment are:

	<u>Years</u>
Buildings and special constructions	30 – 60
Installations and equipment	10 – 25
Computers and electronic equipment	3 – 5
Vehicles	3 – 5

Land is not depreciated as it is assumed to have an unlimited service life.

Estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. If the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Assets held under finance leases are depreciated over the useful life on the same basis as owned assets or, where the period is shorter, over the term of the relevant lease contract.

An item of property is no longer recognized as a result of the disposal or when no future economic benefits are expected from continued use of the asset.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalized and the carrying amount of the initial component is canceled. Other subsequent expenditure is capitalized only when future economic benefits are expected through the use of such assets. All other expenditure is recognized in the profit or loss account as incurred.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognized in the statement of comprehensive income in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the statement of comprehensive income when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets other than goodwill (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Inventories like raw materials, consumables, materials in the form of inventory items, goods and packages are valued at acquisition cost or the price in foreign currency at the exchange rate on the date of acquisition, plus custom duties, custom fees and travel expenses such as insurance.

Production in progress, semi-finished and finished goods are valued at the production cost.

Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Restructuring

A restructuring provision is recognized when the Entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognized at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Entity's obligation.

Financial instruments

Financial assets and financial liabilities are recognized when the Entity becomes a party to the contractual provisions of the instrument .

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial assets is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "Net financial expenses" in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, etc.) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Derecognition of financial assets

The Entity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

On derecognition of a financial asset other than in its entirety (e.g. when the Entity retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Entity retains control), the Entity allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Entity are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments (continued)

Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'financial cost, net' line item in the statement of comprehensive income/income statement.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Entity derecognises financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognized in profit or loss account.

Related parties

Parties are considered related when other party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly control or significantly influence the other party.

Operating segments

An operating segment is a component of the 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 regularly reviewed 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. Segment information is presented in respect of the Entity's business and geographical segments and is determined based on the Entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Entity's premises) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Use of estimates

In the application of the Entity's accounting policies, as described above, the directors are re required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates (continued)

are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements

The following are the critical judgements that the directors have made in the process of applying the Entity's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

i) Impairment of tangible and intangible assets

At each balance sheet date, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, management estimates future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

ii) Useful lives of property, plant and equipment

The Entity reviews for adequacy the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

iii) Restructuring provisions

iv) Deferred taxes

v) Provisions and contingent liabilities

vi) Allowances for bad and doubtful customers

vii) Allowances for obsolete inventory or for net realizable value adjustments

The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Comparatives

Certain amounts in the statement of financial position, statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the prior year have been reclassified to conform to the current year's presentation.

The Company corrects material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery, in accordance with the provisions of IAS 8, by:

a. restating the comparative amounts for the prior period(s) presented in which the error occurred; or

b. if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

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4. REVENUES

Below, is in analysis of the Company's revenues for the year.

	<u>December 31 2014</u>	<u>December 31 2013</u>
Revenues from sales of goods	128,434,401	90,727,398
Revenue from commodities	427,412	658,128
Revenue from rendering of services	833,055	280,650
Other revenues	<u>2,957,372</u>	<u>4,731,136</u>
Total	<u>132,652,240</u>	<u>96,397,312</u>

	Segment revenue	
	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Domestic sales (Romania)	16,082,849	18,340,754
Sales on foreign markets	<u>116,569,391</u>	<u>78,056,558</u>
Total	<u>132,652,240</u>	<u>96,397,312</u>

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4. REVENUES (continued)

Segmentation revenue and profits

	Segment revenues		Segment (losses)	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Power transformers	108,301,001	74,954,658	(13,494,079)	(29,968,438)
Electric engines	23,554,478	17,427,338	(699,577)	(5,235,562)
Others	796,761	4,015,316	(21,784,424)	(31,860,356)
Total from operations	132,652,240	96,397,312	(35,978,080)	(67,064,354)

	Segment Assets		Segment Liabilities	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Segment Assets and Liabilities				
Power transformers	147,924,662	170,385,721	190,280,511	53,542,834
Electric engines	47,235,611	48,401,827	51,807,806	8,333,777
Others*	166,387,639	153,220,699	164,560,690	393,974,589
Total Assets/Liabilities	361,547,912	372,008,247	406,688,904	455,851,200

Information by geographic area

	Income by geographic area	
	31-Dec-14	31-Dec-13
Greece	42,373,953	40,559,088
KSA	51,127,594	23,743,189
Romania	16,082,849	18,521,108
Germany	6,199,479	5,717,811
Italy	6,756,217	1,977,259
Turkey	-	1,619,037
Iraq	4,353,511	1,391,852
Pakistan	-	846,447
Jordan	-	602,206
Lebanon	127,766	231,035
USA	1,067,924	150,688
Cyprus	62,160	95,187
Tunisia	-	16,773
Egypt	354,413	4,260
Maroc	1,201,515	-
Olanda	2,227,201	-
Others	163,568	921,372
Total	132,652,240	96,397,312

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5. COST OF SALES

	<u>December 31, 2014</u>	<u>December 31, 2013 (*)</u>
Raw materials	80,971,638	62,544,438
Consumables expenses	2,282,826	1,421,123
Packages expenses	25,084	13,980
Energy, water and gas	2,738,384	3,418,410
Repairs	3,340	767,205
Staff costs	17,894,202	20,141,155
Depreciation and amortization related to non-current assets	3,878,477	4,106,528
Others	20,488	63,810
Third party services	3,437,757	3,153,281
Transportation expenses	549,342	802,545
Telecommunication expenses	43,916	149,191
Rent	59,927	53,924
Environmental expenses	30,473	76,967
Total	<u>111,935,854</u>	<u>96,712,558</u>

*) Certain amounts in the cost of sale note for the prior year have been reclassified to conform to the current year's presentation (please see Note 28)

6. OTHER GAINS AND LOSSES

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Income from sale of property, plant and equipment	-	2,283,030
Expenses with disposal of property, plant and equipment	(1,436)	(940,412)
Income/ (expense) net of exchange differences	1,292,098	(5,681,874)
Total	<u>1,290,662</u>	<u>(4,339,256)</u>

7. OTHER OPERATING EXPENSES

	<u>December 31, 2014</u>	<u>December 31, 2013(*)</u>
	<u>RON</u>	<u>RON</u>
Other income	1,170,721	2,865,879
Reversal of provisions for current assets	398,699	-
Provisions for current assets	-	(1,672,535)
Provisions for VAT receivable (see Note 13)	(3,705,076)	-
Reversal of provision for risks and charges	2,568,496	-
Expenses with provisions for risk and charges	-	(2,366,955)
Provisions for penalties and interest for late payment of VAT (see Note 13)	(4,248,418)	-
Impairment related to property, plant and equipment	-	(532,759)
Other expenses	(438,109)	(512,956)
Total	<u>(4,253,687)</u>	<u>(4,706,236)</u>

*) Certain amounts in the other operating expenses note for the prior year have been reclassified to conform to the current year's presentation (please see Note 28)

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8. FINANCE COSTS, NET

	December 31, 2014	December 31, 2013
Interest income	(14,654)	(30,963)
Interest expense from loans and leasing	21,123,043	20,938,787
Total	21,108,389	20,907,824

9. ADMINISTRATIVE EXPENSES

	December 31, 2014	December 31, 2013 (*)
Energy, water and gas	680,688	1,025,234
Repairs expenses	60,590	87,653
Insurance premiums	299,568	273,009
Staff costs	6,799,131	13,730,794
Fees and charges	4,028,810	2,919,998
Entertainment, promotion and advertising	129,026	293,079
Other third party services	4,444,630	6,407,379
Other taxes, charges and similar expenses	1,398,458	1,564,718
Consumables expenses	459,017	1,979,976
Bank charges	2,144,382	1,421,591
Other administrative expenses	2,605,975	2,315,206
Total	23,050,275	32,018,637

*) Certain amounts in the administrative expenses note for the prior year have been reclassified to conform to the current year's presentation (please see Note 28)

10. INCOME TAX

(Income) / expense for the current and deferred tax recognized in the income statement (-a) for 2014 and 2013 is detailed below.

	December 31, 2014	December 31, 2013
Current tax		
Current income tax expense	-	-
Deferred tax (income)	-	(94,173)

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10. INCOME TAX (continued)

(Income) / expense for income taxes for the year can be reconciled (-a) with the loss of the year end, as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Loss before tax	(35,979,080)	(67,158,527)
Tax calculated at the rate of 16%	(5,756,493)	(10,745,364)
Effect of non-deductible expenses	17,403,545	24,291,037
Effect of non taxable income	(12,026,073)	(20,103,269)
Effect of similar items of revenues	-	443,138
Effect of temporary differences	379,021	6,208,631
Income tax credit for the year	-	(94,713)

The tax rate applied to be above reconciliation for the year 2014 and 2013 is 16%.

Deferred tax	<u>December 31, 2013</u>	<u>Recognized in income statement</u>	<u>Recognized in other comprehensive income</u>	<u>December 31, 2014</u>
	RON	RON	RON	RON
Deferred tax (liability) / receivable recognized (- a) in relation to:				
Surplus on revaluation of tangible assets	(2,532,320)	-	-	(2,532,320)
	(2,532,320)	-	-	(2,532,320)
Restructuring provisions	437,561	(427,307)	-	10,254
Provisions for guarantees	215,104	(215,104)	-	-
Allowances for doubtful debts	359,223	372,968	-	712,442
Adjustments for slow moving inventories	1,142,245	85,789	-	1,228,033
	2,154,133	(160,594)	-	1,973,790
Effect of tax losses for which no deferred tax recognized	397,936	160,594	-	558,530
Total deferred tax	-	-	-	-

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11. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and other constructions	Plant and machinery	Equipment and vehicles	Advances for fixed assets and capital work in progress	Total
COST						
At December 31, 2013	198,086,512	64,413,854	243,597,018	107,261,499	3,649,221	617,008,104
Additions	-	-	-	-	1,068,624	1,068,624
Transfers	-	26,291	645,465	5,458	(677,215)	-
Disposals	-	-	(871,331)	-	-	(871,331)
Inputs/ (outputs) from revaluation	-	-	-	-	-	-
At December 31, 2014	198,086,512	64,440,145	243,371,152	107,266,957	4,040,631	617,205,397
ACCUMULATED DEPRECIATION						
At December 31, 2013	-	-	(235,436,948)	(107,191,491)	-	(342,628,438)
Depreciation expense	-	(4,278,078)	(1,554,494)	(23,409)	-	(5,855,981)
Eliminated on disposals of assets	-	-	869,895	-	-	869,895
Eliminated from revaluation	-	-	-	-	-	-
At December 31, 2014	-	(4,278,078)	(236,121,547)	(107,214,899)	-	(347,614,524)

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment allowance	Buildings and other constructions		Plant and machinery	Equipment and vehicles	Advances for fixed assets	Total
	Land	constructions				
At December 31 2013	-	-	(71,953)	-	(3,606,140)	(3,678,092)
Impairment losses recognized in profit or loss account	-	-	-	-	-	-
Revaluation impact	-	-	-	-	-	-
At December 31 2014	-	-	(71,953)	-	(3,606,140)	(3,678,092)
Net book value						
At December 31 2013	198,086,512	64,413,854	8,088,117	70,008	43,081	270,701,574
At December 31 2014	198,086,512	60,162,067	7,177,652	52,060	434,491	265,912,782

Advances granted for tangible assets include an amount of RON 3,602,600 paid in 2008 to Mija Industrial Park S.A., an affiliated entity, under contract execution of construction works consisting of refurbishment of office building with a ground area of 820 sqm, and a built area of 3,280 sqm, owned by the Company. The total value of the agreement is estimated at EUR 2,000,000 without VAT, the final value being set to be determined based on the execution project. As at December 31, 2014 the contracted works have not started yet.

At 31 December, 2014, the Company management believes that the advance granted to Mija Industrial Park S.A. is not recoverable and the attached financial statements include an impairment allowance for this amount.

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

1. Pledged property, plant and equipment

As at December 31, 2014 the net book value of the property, plant and equipment pledged in favour of banks, with regard to the loans of the Entity, is of RON 258,248,516 (December 31, 2013: RON 236,274,516).

2. Property, plant and equipment purchased under finance lease

As at December 31, 2014, the net book value of the property, plant and equipment purchased under finance leases was of RON 0 (December 31, 2012: RON 69,630).

3. Revaluation of the property, plant and equipment

As at December 31, 2013, the Company's land and buildings were revalued by an independent appraiser, member of ANEVAR, and the result was a net loss of RON 1,773,471, out of which an amount of RON 588,580 was recorded in the revaluation reserve account credit and the amount of RON 2,362,051 was recorded as impairment of tangible assets in the income statement in the year 2013.

12. INTANGIBLE ASSETS

	<u>Development expenses</u>	<u>Other intangibles</u>	<u>Advances for intangibles</u>	<u>Total</u>
Cost				
At December 31, 2013	217,867	658,639	1,757,896	2,634,402
Additions	-	38,514	-	38,514
Disposals	-	-	(13,546)	(13,546)
At December 31, 2014	217,867	692,735	1,744,350	2,659,370
Accumulated amortisation				
At December 31, 2013	(210,346)	(287,727)	-	(498,073)
Amortisation expense	-	(57,226)	-	(57,226)
Eliminated on disposal of assets	-	-	-	-
At December 31, 2014	(210,346)	(344,953)	-	(555,299)

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12. INTANGIBLE ASSETS (continued)

Impairment allowance	Development expenses	Other intangibles	Advances for intangibles	Total
At December 31, 2013	-	-	739,088	739,088
Impairment losses of intangible assets in progress	-	-	-	-
At December 31, 2014	-	-	739,088	739,088
At December 31, 2013	7,521	366,494	1,018,808	1,392,823
At December 31, 2014	7,521	347,782	1,005,262	1,364,984

The Company's management conducted an analysis of impairment of net book value of the intangible assets and has not recorded additional adjustments for these during 2014.

13. OTHER ASSETS

	December 31, 2014	December 31, 2013
Guarantees on long-term	510,469	286,209
Commercial guarantees paid	233,364	1,192,379
Provisions for guarantees	(225,923)	(1,245,197)
Other investments	1,817	1,818
Sundry debtors	187,043	225,855
VAT receivable	14,324,103	7,693,941
Less: Allowance for doubtful VAT receivable	(3,705,076)	-
Total	11,325,797	8,155,005

During the year ended December 31, 2014 the Company was subject to a VAT reimbursement control by the local tax authorities, covering prior periods December 2008 – February 2014. The VAT amount requested by the Company for reimbursement was RON 8,507,956. The VAT inspectors disallowed the amount requested for reimbursement by the Company and assessed additional VAT liabilities in amount of RON 8,404,943 and additional late payment interest and related penalties in the amount of RON 5,635,396. Based on management's best estimate related to the recoverability of these amounts as at December 31, 2014 an allowance for doubtful VAT receivable of RON 3,705,076 and a provision for risks and charges of RON 4,248,418 (see Note 7 and Note 20) for the penalties and interests requested by the fiscal authorities were recorded in the financial statements as of December 31, 2014. The management of the Company believes based on internal assessment that the additional amounts not provided for are defensible in court and a claim against the fiscal authorities will be submitted in the court of law during April 2015.

	December 31, 2014	December 31, 2013
Guarantees on long-term	510,469	286,209
Other current assets	10,815,328	7,868,796
Total	11,325,797	8,155,005

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14. INVENTORIES

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Raw materials	12,404,350	11,324,626
Consumables	435,280	570,994
Materials in the form of inventory items	1,071,394	780,909
Packaging	182,326	85,174
Finished goods	2,535,872	1,510,662
Work in progress	2,242,254	7,664,842
Semi-finished goods	1,228,358	1,202,604
Residual products	25,430	45,061
Allowance for impairment of inventories	<u>(7,819,340)</u>	<u>(7,139,029)</u>
Total	<u>12,305,924</u>	<u>16,045,843</u>

The movement in the allowance for slow moving and obsolete inventory is presented below:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Balance at the beginning of the year	7,139,029	8,540,209
Charge/(Release) in the current year	<u>680,311</u>	<u>(1,401,181)</u>
Balance at the end of the year	<u>7,819,340</u>	<u>7,139,029</u>

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15. TRADE AND OTHER RECEIVABLES

	December 31, 2014	December 31, 2013
Trade receivables	42,591,878	25,338,349
Trade receivables recognised under IAS 11	25,248,136	49,522,197
Allowance for doubtful receivables	(521,762)	(2,245,145)
Advances paid for inventory	101,095	719,235
Advances paid for services	18,026	18,825
Total	67,437,373	73,353,461

In determining the recoverability of trade receivables, the Company takes into account changes in the creditworthiness of the customer from the date of credit to the reporting date. Concentration of credit risk is limited due to the existence of a large portfolio of clients unaffiliated. Thus, the Company's management believes that no additional adjustments are needed for trade receivables impairment than those recognized in these financial statements.

Aging of receivables that are older than 60 days:

	December 31, 2014	December 31, 2013
60-90 days	1,228,869	3,468,714
90-120 days	1,525,389	285,355
Over 120 days	1,237,838	26,704,648
Total	3,992,096	30,458,717

Movement in allowance for trade receivables is as follows:

	December 31, 2014	December 31, 2013
Balance at the beginning of the year	2,245,145	4,263,308
(Release) in the current year	(1,723,383)	(2,018,163)
Balance at the end of the year	521,762	2,245,145

Aging of receivables past due and impaired:

	December 31, 2014	December 31, 2013
Over 120 days	521,762	2,245,145
Total	521,762	2,245,145

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16. CASH AND CASH EQUIVALENTS

	December 31, 2014	December 31, 2013
Bank accounts	3,200,761	2,223,187
Other	-	12,921
Cash equivalents	291	-
Total	3,201,052	2,236,108

17. ISSUED CAPITAL

Share capital is fully paid as at December 31, 2014 and December 31, 2013.

	No. of shares	Share capital RON
Share capital at		
December 31, 2014	1,037,602,913	103,760,291
Effect of inflation on capital		952,227,570
Share capital at		
December 31, 2014		1,055,987,861

	No. of shares	Share capital RON
Share capital at		
December 31, 2013	337,602,913	33,760,291
Effect of inflation on capital		952,227,570
Share capital at		
December 31, 2013		985,987,861

Shareholder structure December 31, 2014	No of shares	Procent
Al-Arrab Contracting Company Ltd	991,284,640	95.53%
Other shareholders	46,318,273	4.63%
Total	1,037,602,913	100%

Shareholder structure December 31, 2013	No of shares	Procent
Al-Arrab Contracting Company Ltd	291,284,464	86.28%
Other shareholders	46,318,273	13.72%
Total	337,602,913	100%

During October 2014, the share capital of the Company has been increased by RON 70,000,000 (equivalent of EUR 15,938,069) through the conversion of a portion of the shareholders loan in share capital. The share capital increase has been approved by the Romanian Trade Register on October 22, 2014.

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18. RESERVES

	December 31, 2014	December 31, 2013
Legal reserves	17,784,866	17,784,866
Revaluation reserves	12,837,480	12,837,479
Other	43,133,772	43,133,772
Total	73,756,118	73,756,117

19. BORROWINGS

	December 31, 2014	December 31, 2013
<u>Loans guaranteed</u>		
Short term loans	84,010,561	72,106,646
Current portion of long term loans	67,357,658	50,584,561
<u>Loans guaranteed</u>		
Long term loans	200,974,208	261,804,969
Total	352,342,427	384,496,176

a) Amounts due to credit institutions

The Company contracted a credit facility amounting to 29,800,000 EUR from Blom Bank for the financing of working capital and for the payment of the outstanding debts towards state authorities. The credit facility comprises the following credit limits:

- An overdraft loan of EUR 3,000,000 for the current activity, that can be utilized up until March 31, 2015, with an attached interest rate of EURIBOR 1m plus 2.5% fix margin per annum, but no lower than 4.75% per annum;
- A loan of EUR 5,300,000 for the full payment of budget obligations, that can be utilized up until March 31, 2015, with an attached interest rate of EURIBOR 1m plus 2.5 % . per annum, but no lower than 4.75% per annum;
- A revolving facility of EUR 4,000,000 EUR, for the financing contracts, that can be utilized up until March 31, 2015, with an attached interest rate of EURIBOR 1m plus 2.5% . per annum, but no lower than 4.75% per annum;
- A revolving facility of EUR 9,000,000 for the issuance of letters of credit, that can be utilized up until March, 31, 2015:
 - For abroad suppliers, with an attached interest rate of EURIBOR 1m plus 2.5% fix margin per annum, but no lower than 4.75% per annum,
 - For domestic suppliers, with an attached rate of ROBOR 1m plus 0.5% per annum, but no lower than 10% per annum.

A revolving facility of EUR 8,500,000 for issuance of warranty letters, that can be utilized up until March, 31, 2015 (non cash) .

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19. BORROWINGS (continued)

The above mentioned agreement is pledged with:

- Real estate mortgage over the land located in Craiova, Calea Bucuresti Str., No. 80, Dolj county, with a surface of 468.862 sqm., property of SC Electroputere SA, as well as the related constructions.
- Pledge over the cash accounts of the debtor;
- Pledge over the receivables resulting from the agreement sealed by SC Electroputere SA with its clients. According to the addendum 1/30.08.2011 to the Real Warranty agreement, the company is unconditionally obliged to warrant the above mentioned credit through the of rights from the selling agreements between the company and its final clients;
- Guarantee contract entitled „Guarantee and Indemnity” signed by Mada Group For Industrial and Commercial Investment Company Limited, related party, for the amount of EUR 26,200,000.
- Real estate mortgage over the land located in Mogosoaia, Iflov county with a surface of 184.000 sqm, property of SC Electroputere SA

b) Amounts due to shareholders

As at December 31, 2014 the amounts owed to the shareholders, are long-term loans from the main shareholder of the Company, Al-Arrab Contracting Company Ltd, in the amount of EUR 44,839,296 equivalent of RON 200,974,208 (December 31, 2013: RON 261,804,969, equivalent of EUR 58,377.215), granted for financing of working capital, environment and development investments, according to the obligations assumed under the privatization agreement no. 67/30.10.2007.

Interest payable at December 31, 2014 on loans from shareholders amounts to RON 67,357,658, equivalent of 15,028,147 EUR (31 December 2013: RON 50,584,562, equivalent of 11.279.364 EUR), calculated at rates ranging between 0% and 6.5% per year.

During October 2014, the share capital of the Company has been increased by RON 70,000,000 (equivalent of EUR 15,938,069) through the conversion of a portion of the shareholders loan in share capital. The share capital increase has been approved by the Romanian Trade Register on October 22, 2014.

The interest expense related to the shareholders loan for the year ended December 31, 2014 is in amount of RON 16,632,253 (for the year ended December 31, 2013: RON 17,178,201).

According to the loan agreement, Electroputere undertakes to establish in favour of Al-Arrab Contracting Company Ltd a pledge on movable assets (plant, machinery and equipment) required for the manufacture of transformers and electric motors, as well as a real estate mortgage on the land located in Craiova, with the following cadastral numbers: 10493/3 (mortgaged to Blom Bank France S.A.), 10493/4 (mortgaged to Blom Bank France S.A), 10493/5 (mortgaged to Blom Bank France S.A), 10493/6/1 (mortgaged to Blom Bank France S.A), 10493/7 (mortgaged to Blom Bank France S.A), 10493/8 (mortgaged to Blom Bank France S.A), 10493/9 (mortgaged to Blom Bank France S.A), 10493/10 (mortgaged to Blom Bank France S.A), 10493/11/2 (mortgaged to Blom Bank France S.A), 10493/11/3 (mortgaged to Blom Bank France S.A), 10493/12 (mortgaged to Blom Bank France S.A), 10493/13/1 (mortgaged to Blom Bank France S.A), 10493/13/3 (mortgaged to Blom Bank France S.A) and 11.042 (without mortgaged to Blom Bank France S.A.).

As of the balance sheet date this pledges/mortgages have not been made.

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20. PROVISIONS

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Provisions for guarantee to customers	-	1,344,402
Provisions for restructuring	64,087	2,734,757
Provisions for onerous contracts	1,269,894	3,118,068
Provisions for penalties and interest related to the VAT reimbursement control (Note 14)	4,248,418	-
Other provisions	585,474	305,298
Total	<u>6,167,873</u>	<u>7,502,525</u>

Provisions for restructuring are provisions for redundancy payments to be paid to employees made redundant during 2013 , in accordance with the collective labor agreement.

21. TRADE AND OTHER PAYABLES

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Trade payables	22,965,098	26,433,502
Invoices to be received	3,888,493	1,847,482
Advances from customers	17,721,302	27,393,804
Sundry creditors	5,418,335	4,775,634
Total	<u>49,993,228</u>	<u>60,450,422</u>

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22. OTHER CURRENT LIABILITIES

	December 31, 2014	December 31, 2013
Wages	1,909,678	1,879,625
Social contributions	344,760	694,395
Other taxes	5,472	4,737
Tax on salaries	224,739	321,877
Other current liabilities	309,680	290,354
Total	2,794,329	3,190,988

23. FINANCE LEASE LIABILITIES

The following table shows finance leases payable associated with the financial lease contracts grouped by repayment date:

	December 31, 2014	December 31, 2013
Within one year	-	99,868
Over 1 year and less than 5 years	-	-
Total	-	99,868
Less future finance charges	-	6,909
Present value of lease obligations	-	92,959

	December 31, 2014	December 31, 2013
Current portion	-	92,959
Non-current portion	-	-
Total	-	92,959

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24. FINANCIAL INSTRUMENTS

a) Capital risk management

The Entity's objectives when managing capital are to safeguard the Entity's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Entity consists of debt, which includes the borrowings presented at note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings, as presented in notes 17 and 18.

Consistent with others in the industry, the Entity monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'capital and reserves' as per the balance sheet plus net debt.

The gearing ratios as at December 31, 2014 and 2013 were as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Total borrowings	352,342,427	384,589,135
Less: cash and cash equivalents	<u>(3,201,052)</u>	<u>(2,236,108)</u>
Net debt	<u>349,141,375</u>	<u>382,353,027</u>
Total capital and reserves	(49,821,034)	(83,842,953)
Gearing ratio	n/a	n/a

b) Interest rate risk management

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments bear interest at market rates, therefore it is considered that their fair values did not differ significantly from the carrying amounts.

Interest rate sensitivity

The sensitivity analysis presented below has been determined for existing interest bearing loans outstanding at the reporting date, and the stipulated change taking place at the beginning of the financial year and held constant throughout the next reporting period in the case of borrowings linked to floating rates.

If interest rates would be higher / lower by 1% (100 basis points) and all other variables are held constant, the Company's net loss for 2014 would increase / decrease by RON 211,230 (2013: RON 209,388). This is mainly attributable to the Entity's exposure to interest rates on its variable interest rate for EUR denominated borrowings.

c) Credit risk management

The Company is subject to credit risk due to its trade receivables and other types of claims. The Company has policies to ensure that sales are made to customers with appropriate references on their creditworthiness. Date of maturity of debt is closely monitored and amounts due after exceeding it are pursued promptly. Trade receivables (customers) are presented net of adjustments for impairment of doubtful debts. The company develops policies that limit the amount of credit exposure to any financial institution.

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24. FINANCIAL INSTRUMENTS (continued)

d) Fair value of the financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard term and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes);
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available using discounted cash flow analysis, based on the yield curve which do not include options models and valuation models for derivatives which have options pricing models.

The financial instruments from statement of financial position includes trade and other receivables, cash and cash equivalents, borrowings both short term and long term and other liabilities. Estimated fair values of these instruments approximate their carrying amounts. Carrying amounts represent the Company's maximum exposure to credit risk of existing claims.

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24. FINANCIAL INSTRUMENTS (continued)

e) Foreign currency risk management

The Entity is exposed to foreign exchange rate fluctuations in trade and finance. Currency risk arising from recognized assets and payables including loans denominated in foreign currency. Due to the high costs associated with Company policy is not to use derivative financial instruments to mitigate this risk. The carrying amounts of the Entity's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

2014	EUR	USD	CHF	December 31,	
	1EUR=RON 4,4821	1USD = RON 3,6868	1CHF=RON 3,7273	1 RON	2014 Total RON
ASSETS					
Cash and cash equivalents	3,162,024	1,322	-	37,706	3,201,052
Trade and other receivables	40,203,542	-	-	38,049,169	78,252,701
Other non-current assets	138,914	-	-	371,556	510,469
LIABILITIES					
Trade and other payables	37,554,201	21,338	229,541	14,982,477	52,787,557
Borrowings short term and long term	343,674,924	-	-	8,738,592	352,413,516
Finance lease short term and long term					
Net exposure	(337,724,645)	(20,016)	(229,541)	14,737,351	(323,236,850)
2013					
ASSETS					
Cash and cash equivalents	1,793,154	1,435	1,211	440,308	2,236,108
Trade and other receivables	22,937,528	589,197	-	57,818,965	81,345,690
Other non-current assets	138,994	-	-	147,215	286,209
LIABILITIES					
Trade and other payables	45,927,104	50,747	148,018	17,515,542	63,641,410
Borrowings short term and long term	381,590,042	1,137,629	-	1,768,506	384,496,176
Finance lease short term and long term	92,959	-	-	-	92,959
Net exposure	(402,740,428)	(597,744)	(146,807)	39,122,440	(364,862,538)

This is a free translation from the original Romanian binding version.

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24. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis to exchange rate variations

The Entity is exposed to the exchange rates USD/RON and EUR/RON. The following table details the entity sensitivity to a 10% increase and decrease in the RON against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A negative number indicates a decrease in profit where the RON weakness 10% against the relevant foreign currency.

For a 10% strengthens of the RON against the relevant currency (EUR/USD), there would be an equal and opposite impact on the profit and other equity, and the balances below would be positive. Changes will be attributable to exposure of the borrowings, mostly in EUR, at the end of the reporting period.

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
	RON	RON
Profit or loss +10%	(6,856,968)	(8,184,273)
Profit or loss -10%	6,856,968	8,184,273

	<u>Impact on the profit as at :</u>	
	<u>December 31, 2014</u>	<u>December 31, 2013</u>
EUR	(6,849,968)	(8,163,928)
USD	(494)	(16,694)
CHF	(5,599)	(3,652)
	<u>(6,856,060)</u>	<u>(8,184,273)</u>

f) Liquidity risk management

A prudent liquidity management involves maintaining sufficient cash and credit lines available, by a continuous monitoring of the estimated and real cash flow and by correlating the due dates of the financial assets and liabilities. Given the nature of its business, the Company aims at being flexible with regard to financing options, by maintaining credit lines available to finance the operating activities, as well as by the financial support from the majority shareholder.

The following tables detail the Company's remaining contractual maturity for financial liabilities.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

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2014	Weighted average interest rate	Less than 1 month	1 - 2 years	2 - 5 years	Total
<i>Non-interest bearing</i>					
Trade and other payables	-	52,787,557	-	-	52,787,557
<i>Interest bearing instruments</i>					
	(EURIBOR 1M+2.5% but max 4.75%;				
	EURIBOR 1M +7.5 b.p, but max 9.75%)				
Borrowing short and long term		151,368,219	-	200,974,208	352,342,427
Cash and cash equivalents		3,201,052	-	-	3,201,052
Trade and other receivables		78,252,701	-	-	78,252,701
2013	Weighted average interest rate	Less than 1 month	1 - 2 years	2 - 5 years	Total
<i>Non-interest bearing</i>					
Trade and other payables		63,734,369	-	-	63,734,369
<i>Interest bearing instruments</i>					
	(EURIBOR 1M+2.5% but max 4.75%;				
	EURIBOR 1M +7.5 b.p, but max 9.75%)				
Borrowing short and long term		122,691,207	-	261,804,969	384,496,176
Cash and cash equivalents		2,236,108	-	-	2,236,108
Trade and other receivables		81,345,690	-	-	81,345,690

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25. RELATED PARTY TRANSACTIONS

Balances and transactions with related parties are as follows:

	Amounts receivable from Related Parties		Amounts payable from Related Parties	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	RON	RON	RON	RON
Al -Arrab Contracting Company Ltd	-	9,462,762	268,331,866	312,389,531
Mada Group for Industrial and Commercial investment	-	-	4,734,187	4,772,495
Parc Industrial Mija SA- avansuri pentru imobilizari corporale	3,602,600	3,602,600	-	-
MIS Consulting	-	-	-	-
Griro SA	-	-	44,445	44,445
Cummins Generator Technologies Romania – sale of goods	-	-	-	-
Mabani Steel	-	-	289,429	-
Osama Al-Halabi	-	-	118,000	-
Total	3,602,600	13,065,362	273,517,927	317,206,471
	Sale of goods and services		Purchase of goods and services	
	12 months 2014	12 months 2013	12 months 2014	12 months 2013
	RON	RON	RON	RON
Griro SA	-	-	-	44,445
MIS Consulting	-	-	-	-
Al -Arrab Contracting Company Ltd	16,972,405	-	-	-
Cummins Generator Technologies Romania	-	-	-	-
Mabani Steel	-	-	178,173	-
Osama Al-Halabi	-	-	118,000	-
Total	16,972,405	-	296,173	44,445

26. COMMITMENTS AND CONTINGENCIES

Litigations

As at 31 December 2014 the Entity is subject to a number of lawsuits arising in the normal course of business. The Company's management believes that these actions will not have a material adverse effect on economic performance and financial position of the Company.

Taxation

The taxation system in Romania is undergoing a continuous development phase and is subject to various interpretations and constant changes which may sometimes be retroactive. Although the actual tax due for a certain transaction can be minimal, penalties can be significant, as they can be calculated at the value of the transaction and at a minimum ratio of 0.1% per day starting with 2006, but can be significantly higher. In Romania, the fiscal year remains open for tax audit for a period of 5 years. The management considers that the tax liabilities included in these financial statements are adequate.

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26. COMMITMENTS AND CONTINGENCIES (continued)

Taxation (continued)

In accordance with the requirements issued by the Ministry of Public Finance, which relates to the fiscal treatment of the elements of equity that have not been subject to the calculation of the income tax as at the date of their recording in the accounts, due to their nature, should the Company change in the future the destination of the revaluation reserves (to cover losses or to distribute to the shareholders), this will lead to additional income tax liabilities.

Environment

The regulations regarding the environment are in a development phase in Romania and the Company did not record any liabilities as at December 31, 2014 and December 31, 2013 for any anticipated costs, including legal and consulting fees, design and implementation of remedial plans regarding the environment.

On February 24, 2010, the Regional Agency of Environment of Dolj County issued an environmental authorization valid until February 24, 2020. By this authorisation the Company was not required to adhere to any compliance program.

Privatization of the Company

In 2007, the majority shareholder of the Company offered for sale the package of shares held in SC Electroputere S.A., representing 62.82% of the total number of shares issued by the Company.

The winner of the sale offer regarding the Electroputere shares managed by AVAS was declared Al-Arrab Contracting Company Ltd, a company with which it was concluded the shares sale-purchase contract no. 67/30.10.2007 on October 30, 2007.

According to this privatization contract, the main post-privatization obligations of the buyer are the following:

- To approve measures aiming at maintaining the normal production capacity of the equipment and plant;
- To assume all the rights and obligations stated in the Collective Labour Agreement, Individual labour agreements, laws regarding social protection and the protocol signed with Electroputere Trade Union;
- To make from own resources an investment aiming at the protection of the environment in the total amount of EUR 3,084,000 to comply with the environment obligations and the measures included in the environmental program of conformity;
- To ensure the working capital of the Company by an investment in amount of EUR 37,000,000 to support the current activity. In this respect, Al-Arrab Contracting Company Ltd transferred the entire amount of EUR 37,000,000 to the Company's accounts in order to support the current activity, before the deadline set for May 13, 2008;
- To invest from own sources in amount of EUR 20,000,000 during five years in development purposes. In 2009, the value of development investments according to the privatization contract was 6,000,000 EUR (2008: 7,000,000 EUR). Both amounts have been transferred up to the due date of 13 November 2009 and 13 November 2008 respectively.

In the business plan presented as Annex to the Privatization agreement, the following is stated:

- The buyer agrees to maintain the number of employees from the signing date of the privatization agreement (2.635 employees);
- The activity will focus on the locomotive production for export and the rise in sales of power transformers;
- The buyer proposes the technological restructuring, through the software and hardware acquisition, as well the implementation of an ERP system, which started to be implemented with the financial year 2013.

As at December 31, 2014, post-privatisation obligation mentioned above were partially accomplished.

During 2015 the main shareholder of the Company – Al Arrab Contracting Company Ltd. received a legal claim from AAAS (former AVAS) stating that part of the privatisation obligations have not been properly met. The first hearing term is set for April 2015 and the shareholders defense is in the beginning stage. Based on the representation of the lawyers, the post privatisation obligations remain in the responsibility of the shareholders of the Company, rather than the Company itself. The management of the Company believes, based on legal advice and facts to date that the outcome of the claim should not have a negative effect on the financial statements of the Company. Accordingly, these financial statements do not reflect any adjustments for this uncertainty.

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27. RESULT PER SHARE

	Year ended December 31, 2014	Year ended December 31, 2013
Loss of the year	(35,978,080)	(67,064,353)
No. of shares	1,037,602,913	337,602,913
Loss per share	(0.03)	(0.20)

28. COMPARATIVES

During 2014, certain amounts in the statement of profit or loss and other comprehensive income for the prior year have been reclassified to conform to the current year's presentation.

	December 31, 2013	December 31, 2013	December 31, 2013
	As reported previously	Reclassifications	Current year presentation
Revenues	96,397,312	-	96,397,312
Cost of sales	(91,511,575)	(5,200,983)	(96,712,558)
Gross profit	4,885,737	(5,200,983)	(315,246)
Administration expenses	(37,758,111)	5,739,474	(32,018,637)
Other operating expenses	(9,039,073)	4,167,746	(4,871,327)
Distribution expenses	-	(4,706,236)	(4,706,236)
Other gains and losses	(4,339,256)	-	(4,339,256)
Finance costs	(20,907,824)	-	(20,907,824)
Profit before tax	(67,158,526)	-	(67,158,526)
Income tax expense	94,173	-	94,173
(Loss) for the year	(67,064,353)	-	(67,064,353)

The main items which were reclassified are related to:

- the social contributions for the direct production employees, which as at December 31, 2013 was previously classified as administrative expenses and in the current year has been classified as cost of sale. The total amount is RON 4,114,657.
- The transportation expenses which were previously classified as other operating expenses, were classified as Distribution expenses. The total amount is RON 4,706,236

29. SUBSEQUENT EVENTS

None.

