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**S.C. ELECTROPUTERE S.A.**

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

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION  
("IFRS")**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders,  
S.C. Electroputere S.A.

### Qualified Opinion

1. We have audited the financial statements of S.C. Electroputere S.A. (the "Company"), with registered office in Craiova, Bucharest Road, No. 80, Dolj County, identified by unique tax registration code 6312800, which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, , including a summary of significant accounting policies and notes to the financial statements.
2. The financial statements as at December 31, 2017 are identified as follows:
  - Net negative assets/ Negative Equity RON 185,181,636
  - Net loss for the financial year RON 74,042,664
3. In our opinion, except for the effects of the matter described in paragraph 4 and with the exception of the effects on the corresponding figures as of December 31, 2016 the "*Basis for Qualified Opinion*" section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

### Basis for Qualified Opinion

4. During the year ended December 31, 2017 the Company has computed and has recorded the post employment benefits according to the collective labor agreement. As at December 31, 2016 management has not estimated the present value of the obligations regarding these compensations and has not recorded a related provision in the financial statements, and our audit report related to the financial statements as at December 31, 2016 was modified in this respect. Because the Company has recorded the full value of the post employment benefits in the financial statements for the year ended December 31, 2017 and has not restated the opening balances as required by the International Accounting Standard 8 "Accounting policies, Changes in Accounting Estimates and Errors" the retained earnings as at December 31, 2016 are overstated by RON 2,064,870, the global result as at December 31, 2017 is understated by the same amount and the post employment benefits are understated by RON 2,064,870 as at December 31, 2016.
5. As at December 31, 2016 the Company had property, plant and equipment with a net amount of RON 256,454,493 for which impairment indicators existed. Management has not performed an impairment exercise as at December 31, 2016 and has not recognized any impairment losses as of that date. Our audit report on the financial statements as at December 31, 2016 was modified in this respect. As at December 31, 2017, the Company has performed an impairment exercise and has recorded the related impact in the financial statements. Our opinion on the current period financial statements is also modified because of the effects of this matter on the comparability of the current's period figures and the corresponding figures as required by the International Accounting Standard 8 "Accounting policies, Changes in Accounting Estimates and Errors" on the revaluation reserve, tangible assets and retained earnings as at December 31, 2016.

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

## Material Uncertainty Related to Going Concern

7. We draw attention to Note 3 in the financial statements, which indicates that the Company incurred a net loss of RON 74.042.664 during the year ended December 31, 2017 and, as of that date, the Company's current liabilities exceeded its total assets by 228.442.960. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key Audit Matters

8. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section and in addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

KEY AUDIT MATTER	How our audit addressed the key audit matter
Revenue recognition for Transformers sales	
<p>As disclosed in Note 3 to the financial statements the Company's policy for recognizing revenues from transformers sales is based on the percentage of completion method in accordance with IAS 11 "Construction Contracts". Revenues from such projects is in the amount of RON 78,913,696 and are included in the "Revenue" caption in the statement of profit and loss and other comprehensive income.</p>	<p>In assessing whether the revenue recognition has been properly recognized, our procedures included the following:</p> <ul style="list-style-type: none"> <li>Retrospective review of the budgeted versus actual costs pertaining to the orders started in the prior year and finalized in the current year. We assessed whether there have been significant differences between the amounts estimated in the previous year and the actual amounts incurred in the current year.</li> </ul>
<p>This method involves significant management judgements in relation to the:</p> <ul style="list-style-type: none"> <li>Actual stage of completion of the transformers at the financial year end is determined based on comparing the actual costs incurred by the end of the reporting period to the total estimated costs to be incurred for the entire project. This requires significant inputs and judgments in estimating the future costs to complete;</li> </ul>	<ul style="list-style-type: none"> <li>Testing the open orders in balance as at December 31, 2017 and assessing whether the project stage and estimated costs to complete are accurate and complete;</li> </ul>

KEY AUDIT MATTER	How our audit addressed the key audit matter
<ul style="list-style-type: none"> <li>• Estimating the remaining costs to complete, including the overheads to be allocated until completion is complex and involves allocation of overheads to the individual projects based on allocation keys and requires management to estimate the level of production that they will have in the future periods;</li> <li>• Estimated profit margin on individual contracts is determined by comparing the total expected costs to be incurred to the contractual revenues and the result of this is used to determine contract losses.</li> </ul> <p>Because of the significance of the aforementioned judgements and the size of the revenues from transformers sales, we consider revenue recognition from power transformers construction contracts to be a key area of focus.</p>	
<p><b>Allowances for trade receivables</b></p>	
<p>As disclosed in Note 15 to the annual financial statements, the trade receivables of the Company, are carried at the amortized cost less any impairment losses.</p> <p>Due to the specifics of the business sectors in which the Company is operating, it records significant allowances for its trade receivables.</p> <p>There is a risk that the trade receivables are carried at higher values than the recoverable values as the Company's allowance policy may not be properly applied in determining the collective basis allowance. Furthermore there is a risk that the assessment at the individual trade receivables level has not been performed and there might be cases where an additional specific individual allowance might be needed, in addition to the collective allowance discussed above.</p>	<p>In considering the amounts of the allowances for trade receivables we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• we assessed the Company's allowance policy for reasonability;</li> <li>• we recomputed the aging of the account balance taking into consideration the due dates of the invoices;</li> <li>• we assessed whether the allowances recorded by the Company are in accordance with the allowance policy</li> <li>• we obtained from the internal and external legal counsels legal letters to assess whether any of the Company's customers are either insolvent or bankrupt;</li> </ul>
<p>This is considered to be a key audit matter, due to the significance of the judgements involved in the trade receivables allowance process.</p>	<ul style="list-style-type: none"> <li>• for those customers that were insolvent or bankrupt we assessed whether the allowance recorded by the management is sufficient;</li> </ul>

**Other information- Administrator's Report**

9. The administrator is responsible for preparation and presentation of the other information. The other information comprises the Administrator's report but does not include the financial statements and our auditor's report thereon, nor the non-financial information declaration being presented in a separate report.

# Deloitte.

Our opinion on the financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, we do not express any form of assurance conclusion thereon.

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

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

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

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

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the financial statements prepared as at December 31, 2017, we are required to report if we have identified a material misstatement of this Administrator's report. Except for the effects of the matters described in the "*Basis for Qualified Opinion*" section of our report, we have nothing to report in this regard.

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

13. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

## **Report on Other Legal and Regulatory Requirements**

18. We have been appointed by the General Assembly of Shareholders on April 29, 2016 to audit the financial statements of S.C. Electroputere S.A. for the financial year ended December 31, 2017. The uninterrupted total duration of our commitment is 10 Years, covering the financial years ended December 31, 2008 until December 31, 2017.

# Deloitte.

We confirm that:

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

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

Madeline Alexander, Audit Partner

*For signature, please refer to the original Romanian version.*

Registered with the Romanian Chamber of Financial Auditors  
under no. 36/07.10.2000

*On behalf of:*

**DELOITTE AUDIT S.R.L.**

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

Sos. Nicolae Titulescu nr. 4- 8, America House, Intrarea de Est,  
Etajul 2 - zona Deloitte și Etajul 3, sector 1,  
Bucharest, România  
April 25, 2018

**S.C. ELECTROPUTERE S.A.**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
(all amounts are expressed in RON, unless otherwise specified)

	Note	Year ended December 31, 2017	Year ended, December 31, 2016
Revenue	4	98,620,345	90,190,306
Cost of sales	5	(94,374,560)	(83,415,515)
<b>Gross profit / (loss)</b>		<b>4,245,785</b>	<b>6.774.791</b>
Administrative expenses	9	(24,163,574)	(20,819,661)
Other operating expenses	7	(22,738,177)	(8,006,649)
Distribution expenses		(2,378,043)	(2,902,638)
Other gains or (losses)	6	(11,516,333)	(1,405,473)
Finance costs	8	(18,390,293)	(18,993,073)
Finance income	8	591	5,946
<b>Loss before tax</b>		<b>(75,480,044)</b>	<b>(45,346,757)</b>
Income tax credit	10	1,437,380	-
<b>Loss for the year</b>		<b>(74,042,664)</b>	<b>(45,346,757)</b>
<b>Other comprehensive income, net of tax:</b>			
Gain on revaluation of properties		8,983,627	-
Deferred tax related revaluation of properties		(1,437,380)	-
<b>Total comprehensive income</b>		<b>(66,496,417)</b>	<b>(45,346,757)</b>
<b>Earnings per share</b>	27	<b>(0.07)</b>	<b>(0.04)</b>

These financial statements were authorized for issue by management on April 25, 2018.

  
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**OSAMA M.T. AL-HALABI**  
President

  
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**BOGDAN PARASCHIV**  
CFO

The notes attached are an integral part of these financial statements.  
This is a free translation from the original Romanian binding version.



**S.C. ELECTROPUTERE S.A.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2017**

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

	Note	December 31, 2017 RON	December 31, 2016 RON
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	251,212,282	256,454,493
Intangible assets	12	1,197,375	1,249,389
Other assets	13	1,586,234	345,589
<b>Total non-current assets</b>		<b>253,995,891</b>	<b>258,049,471</b>
<b>Current assets</b>			
Inventories	14	13,296,735	9,842,663
Trade and other receivables	15	60,814,460	106,622,235
Other assets	13	10,395,137	13,471,703
Cash and cash equivalents	16	1,440,528	1,462,066
<b>Total current assets</b>		<b>86,576,860</b>	<b>131,398,667</b>
<b>Total assets</b>		<b>340,572,751</b>	<b>389,448,138</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Issued capital	18	103,760,291	103,760,291
Reserves	18	81,302,365	73,756,118
Accumulated deficit		(370,244,292)	(296,307,460)
<b>Total equity</b>		<b>(185,181,636)</b>	<b>(118,791,051)</b>
<b>Non-current liabilities</b>			
Borrowings	19	203,938,180	203,619,726
Retirement benefit obligation long term	17	1,796,387	-
Other non-current liabilities		-	24,576
<b>Total non-current liabilities</b>		<b>210,734,567</b>	<b>203,644,302</b>
<b>Current liabilities</b>			
Trade and other payables	22	105,713,103	91,537,124
Retirement benefit obligation ST	17	251,664	-
Borrowings	20	194,011,036	195,418,558
Provisions	21	10,050,762	13,459,020
Other current liabilities	23	4,993,255	4,180,185
<b>Total current liabilities</b>		<b>315,019,820</b>	<b>304,594,887</b>
<b>Total liabilities</b>		<b>525,754,387</b>	<b>508,239,189</b>
<b>Total equity and liabilities</b>		<b>340,572,751</b>	<b>389,448,138</b>

These financial statements were authorized for issue by management on April 25, 2018.

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**OSAMA M.T. AL-HALABI**  
 President

\_\_\_\_\_  
**BOGDAN PARASCHIV**  
 CFO

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**S.C. ELECTROPUTERE S.A.**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
(all amounts are expressed in RON, unless otherwise specified)

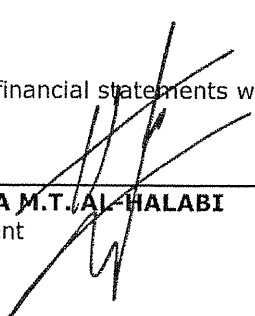
	Year ended as at:	
	December 31, 2017	December 31, 2016
<b>Cash flow from operating activities:</b>		
<b>Loss before tax</b>	<b>(75,480,044)</b>	<b>(45,346,757)</b>
<b>Adjustments:</b>		
Depreciation and amortization of non-current assets	6,076,901	6,121,798
Revaluation of property net effect	9,291,238	-
Net adjustment for impairment of non-current assets	246,886	-
Net adjustment for provision for doubtful accounts receivable	10,065,030	593,103
Net adjustment for impairment of other current assets	(3,404,469)	202,866
Net adjustment for provision slow moving and obsolete inventories	504,764	2,026,083
Net adjustment for provisions for risks and charges	(3,408,258)	4,685,561
Expense with provision for employee benefits	2,048,051	
Net interest expenses	18,930,293	18,606,345
Unrealized forex (gain) / loss differences	5,318,454	1,638,721
Fixed assets from own production	-	-
<b>Movements in working capital:</b>		
Decrease / (Increase) in trade and other receivables	42,031,570	(28,609,218)
(Increase) / Decrease of good execution guarantees granted to customers	(1,265,221)	917,445
(Increase) / Decrease in inventories	(4,588,836)	3,226,035
Decrease in prepaid expenses	192,211	48,219
Increase in trade and other payables	15,094,774	19,266,061
<b>Cash generated / (used in) by operations</b>	<b>21,653,449</b>	<b>(16,623,738)</b>
Interest paid	(1,897,619)	(4,897,346)
Interest received	591	-
<b>Cash flows generated/(used in) by operating activities</b>	<b>19,756,421</b>	<b>(21,521,084)</b>
<b>Cash flow from investing activities:</b>		
Payments for acquisitions of property, plant and equipment and intangible assets	(1,337,172)	(334,161)
<b>Cash flows (used in) investing activities</b>	<b>(1,337,172)</b>	<b>(334,161)</b>

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**S.C. ELECTROPUTERE S.A.**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
(all amounts are expressed in RON, unless otherwise specified)

	Year ended December 31, 2017	Year ended December 31, 2016
<b>Cash flow from financing activities:</b>		
(Decrease) / Increase in loans from financial institutions	(18,440,787)	20,447,740
<b>Cash (used in) / generated by financing activities</b>	<b>(18,440,787)</b>	<b>20,447,740</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(21,539)</b>	<b>(1,407,505)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>1,462,066</b>	<b>2,869,571</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>1,440,528</b>	<b>1,462,066</b>

These financial statements were authorized for issue by management on April 25, 2018.

  
\_\_\_\_\_  
**OSAMA M.T. AL-HALABI**  
President

  
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**BOGDAN PARASCHIV**  
CFO

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**S.C. ELECTROPUTERE S.A.**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
(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
<b>Balance at January 1, 2016</b>	<b>103,760,291</b>	-	<b>60,918,636</b>	<b>12,837,482</b>	<b>377,386,808</b>	<b>(628,347,511)</b>	<b>(73,444,294)</b>
Loss for the year	-	-	-	-	-	(45,346,757)	(45,346,757)
Other comprehensive income	-	-	-	-	-	-	-
Elimination of share capital inflation adjustment	-	-	-	-	-	-	-
<b>Balance at December 31, 2016</b>	<b>103,760,291</b>	-	<b>60,918,636</b>	<b>12,837,482</b>	<b>377,386,808</b>	<b>(673,694,268)</b>	<b>(118,791,051)</b>

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**OSAMA M.T. AL-HALABI**  
President

  
**BOGDAN PARASCHIV**  
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**S.C. ELECTROPUTERE S.A.**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
(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
<b>Balance at January 1, 2017</b>	<b>103,760,291</b>	-	<b>60,918,636</b>	<b>12,837,482</b>	<b>377,386,808</b>	<b>(673,694,268)</b>	<b>(118,791,052)</b>
Loss for the year	-	-	-	-	-	(74,042,664)	(74,042,664)
Revaluation of property gain	-	-	-	8,983,627	-	-	8,983,627
Other comprehensive income	-	-	-	-	-	-	-
Deferred tax related revaluation reserves	-	-	-	(1,437,380)	-	-	(1,437,380)
Others	-	-	-	-	-	105,833	105,833
<b>Balance at December 31, 2017</b>	<b>103,760,291</b>	-	<b>60,918,636</b>	<b>20,383,729</b>	<b>377,386,808</b>	<b>(747,631,100)</b>	<b>(185,181,636)</b>

These financial statements were authorized for issue by management on April 25, 2018.

  
**OSAMA M.T. AL-HALABI**  
President

  
**BOGDAN PARASCHIV**  
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**S.C. ELECTROPUTERE S.A.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(all amounts are expressed in RON, unless otherwise specified)**

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**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-Arrib 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 2017 approximately 70% (2016: 24%) of sales went to Romanian market. Electroputere S.A. is listed on Bucharest Stock Exchange, having the symbol „EPT“. Its prices per share could be analyzed as follows:

	<u>2017</u>	<u>2016</u>
Minimum price	0.0200	0.0340
Maximum price	0.0388	0.0340

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

	<u>2017</u>	<u>2016</u>
Average number of employees	744	754

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

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

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

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative - adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses - adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 7 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

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

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

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

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

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leases"** - adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers - adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

The Company has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Company anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Company in the period of initial application.

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),

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

- c) **New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)**
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
  - **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
  - **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
  - **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
  - **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
  - **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),
  - **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

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

**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 2844/2016 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 2003 for share capital and reserves, respectively equipments.



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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Going concern (continued)**

As at December 31, 2017, the Company recorded an accumulated loss from the previous years in the amount of RON 296,307,461, negative net assets in the amount of RON 185,181,636, net current liabilities in amount of RON 228,442,960 and the loss for the year then ended amounts to RON 74,042,664. 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 foreseeable 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;
- 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 (transformers factory)**

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.

**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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Leasing (continued)**

***The Entity as lessee (continued)***

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.

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

- December 31<sup>st</sup>, 2016: 4.3033 RON/USD and 4.5411 RON/EUR;
- December 31<sup>st</sup>, 2017: 3.8915 RON/USD and 4.6597 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currencies (continued)**

**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.

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, 2017 was 16% (December 31, 2016: 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, plant and equipment (continued)**

**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.

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.

The Company revaluated its land and buildings as of December 31<sup>st</sup> 2017, with the support of independent appraiser certified by ANEVAR, and the result was a net loss from revaluation of RON 307,611 out of which the amount of 8,983,627 was booked as increase of revaluation reserves and the amount of RON 9,291,238 was booked as expense in the profit and loss account of the 2017 year.

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.

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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***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.

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***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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Intangible assets (continued)**

***Internally-generated intangible assets - research and development expenditure***

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.

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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Inventories**

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 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.



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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets (continued)**

***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 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.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **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.

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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial liabilities and equity instruments (continued)**

***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

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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial liabilities and equity instruments (continued)**

**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.

**Use of estimates**

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.

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 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 a 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Use of estimates (continued)**

- 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.

**Comparative financial statements**

During the year ended December 31, 2017 the Company has assessed and recorded in the financial statements the post employment benefits as well as the results of the impairment assessment of the tangible assets. In accordance with the provisions of IAS 8, because such analyses should have been performed as at and for the year ended December 31, 2016, the recording of these adjustments in the 2017 financial statements should have been done by restating the opening balances as at December 31, 2016. Due to the cost benefit ratio, the Company has decided to record the entire amounts during 2017 without restating the opening balances as at December 31, 2016.

**4. REVENUES**

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Revenues from sales of goods	95,485,172	87,296,326
Revenue from rendering of services	664,794	1,186,266
Other revenues	<u>2,110,379</u>	<u>1,707,714</u>
<b>Total</b>	<b><u>98,620,345</u></b>	<b><u>90,190,306</u></b>

	<u>Segment revenue</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Domestic sales (Romania)	68,545,856	21,289,898
Sales on foreign markets	<u>30,074,489</u>	<u>68,866,796</u>
<b>Total</b>	<b><u>98,620,345</u></b>	<b><u>90,190,306</u></b>

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**4. REVENUES (continued)**

**Segmentation revenue and profits**

	<b>Segment revenues</b>		<b>Segment (losses)</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Power transformers	78,913,696	75,957,384	(29,404,917)	(14,613,220)
Electric engines	18,957,068	13,324,454	(5,160,917)	(6,805,228)
Administrative – not allocated	749,581	778,618	(39,476,830)	(23,928,309)
<b>Total from operations</b>	<b>98,620,345</b>	<b>90,190,306</b>	<b>(74,042,664)</b>	<b>(45,346,757)</b>

**Segment Assets and Liabilities**

	<b>Segment Assets</b>		<b>Segment Liabilities</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Power transformers	140,886,190	186,645,222	219,036,757	238,594,273
Electric engines	43,837,922	42,323,209	62,793,654	56,521,311
Administrative – not allocated	155,868,639	160,479,707	243,923,976	213,123,605
<b>Total Assets/ Liabilities</b>	<b>340,572,751</b>	<b>389,448,138</b>	<b>525,754,387</b>	<b>508,239,189</b>

**Information by geographic area**

	<b>Income by geographic area</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Greece	136,640	6,622,156
KSA	10,578,269	49,105,601
Romania	68,545,856	21,289,898
Germany	13,167	245,612
Italy	5,190,209	7,511,241
Pakistan	-	909,418
Jordan	292,307	28,203
Lebanon	250,319	127,207
USA	-	151,165
Tunisia	-	243,616
Eqypt	2,503,787	858,114
Kosovo	481,728	128,575
Morocco	464,131	-
Netherlands	1,445,975	382,457
Kazakhstan	990,030	1,190,380
Sweden	327,643	6,527
Bulgaria	618,181	-
Lithuania	933,734	1,290,983
Czech Republic	1,597,039	-
Israel	1,418,562	-
Others	2,832,768	99,153
	<b>98,620,345</b>	<b>90,190,306</b>

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**5. COST OF SALES**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Raw materials	62,951,106	50,807,185
Consumables expenses	2,058,678	2,062,799
Packages expenses	5,956	2,926
Energy, water and gas	2,183,888	2,487,911
Repairs	-	348
Staff costs	19,632,036	19,205,085
Depreciation and amortization related to non-current assets	3,436,502	3,723,001
Others	2,395	7,113
Third party services	3,407,596	3,731,201
Discounts received	(495,040)	-
Transportation expenses	660,378	1,137,623
Telecommunication expenses	58,902	104,101
Rent	119,583	94,312
Entertainment expenses	13,579	-
Environmental expenses	338,999	51,910
<b>Total</b>	<b><u>94,374,560</u></b>	<b><u>83,415,515</u></b>

**6. OTHER GAINS AND LOSSES**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Income from sale of fixed assets	100	52,114
Income / (Expense) net of exchange differences	(11,516,433)	(1,457,587)
<b>Total</b>	<b><u>(11,516,333)</u></b>	<b><u>(1,405,473)</u></b>

**7. OTHER OPERATING EXPENSES**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	<i>RON</i>	<i>RON</i>
Other income	1,562,299	783,536
(Net expense) with provisions for current assets	(10,558,029)	(3,073,722)
(Net expense) with additional liability related fiscal inspection (Note 13)	(1,517,706)	-
(Expense) with provisions for risks and charges	(2,888,209)	(4,658,562)
(Expense) with revaluation of property (Note 3)	(9,291,238)	-
Travel expenses, and transfer postings	-	(405,312)
Other expenses	(55,295)	(625,589)
<b>Total</b>	<b><u>(22,738,177)</u></b>	<b><u>(8,006,649)</u></b>

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**8. FINANCE COSTS, NET**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Interest income	(591)	(5,946)
Interest expense from loans and leasing	18,930,293	18,993,073
<b>Total</b>	<b><u>18,929,702</u></b>	<b><u>18,987,127</u></b>

**9. ADMINISTRATIVE EXPENSES**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Energy, water and gas	581,093	676,005
Repairs expenses	33,870	6,509
Insurance premiums	159,849	195,813
Staff costs	9,606,991	9,523,487
Fees and charges	23,471	144,293
Entertainment, promotion and advertising	55,777	29,152
Travel and detachment costs	550,896	-
Other third party services	5,515,196	3,835,751
Other taxes, charges and similar expenses	1,851,748	1,491,219
Consumables expenses	1,555,111	872,842
Bank charges	1,629,784	1,464,799
Rent expenses	170,128	249,008
Depreciation expense	2,429,660	2,330,783
<b>Total</b>	<b><u>24,163,574</u></b>	<b><u>20,819,661</u></b>

**10. INCOME TAX**

(Income) / expense for the current and deferred tax recognized in the income statement (-a) for 2017 and 2016 is detailed below.

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<b>Current tax</b>		
Current income tax expense	-	-
Deferred tax (income)	(1,437,380)	-

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<b>Loss before tax</b>	<b><u>(75,480,044)</u></b>	<b><u>(45,346,757)</u></b>
Tax calculated at the rate of 16%	(12,076,807)	(7,255,481)
Effect of non-deductible expenses	30,569,128	18,365,331
Effect of non taxable income	(23,861,066)	(14,841,017)
Effect of similar items of revenues	448,299	-
Effect of temporary differences	6,357,826	3,731,167
<b>Income tax credit for the year</b>	<b><u>(1,437,380)</u></b>	<b><u>-</u></b>



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**10. INCOME TAX (continued)**

The tax rate applied to be above reconciliation for the year 2017 and 2016 is 16%.

Deferred tax	December 31, 2016	Recognized in income statement	Recognized in other comprehensi ve income	December 31, 2017
	RON	RON	RON	RON
<b>Deferred tax (liability) / receivable recognized in relation to:</b>				
Surplus on revaluation of tangible assets	(2,532,320)	-	(1,437,380)	(3,969,700)
	<b>(2,532,320)</b>	<b>-</b>	<b>(1,437,380)</b>	<b>(3,969,700)</b>
Provisions for guarantees	631,440	(258,229)	-	373,211
Allowances for doubtful debts	1,133,722	1,610,405	-	2,744,127
Adjustments for slow moving inventories	1,385,893	80,772	-	1,466,665
	<b>3,154,055</b>	<b>1,949,406</b>	<b>-</b>	<b>4,584,003</b>
Deferred tax asset not recognized	(621,735)	(512,026)	-	(1,133,761)
<b>Total deferred tax</b>	<b>-</b>	<b>1,437,380</b>	<b>(1,437,380)</b>	<b>-</b>
Unrecognised deferred tax related to fiscal losses carriedforward	15,285,226	4,525,542	-	19,810,768

The fiscal losses carriedforward are presented below

	Value at December 31, 2017	Value at December 31, 2016
Fiscal loss related to year ended December 31, 2010	-	25,551,902
Fiscal loss related to year ended December 31, 2011	21,570,286	21,570,286
Fiscal loss related to year ended December 31, 2012	4,588,560	4,588,560
Fiscal loss related to year ended December 31, 2013	38,261,087	38,261,087
Fiscal loss related to year ended December 31, 2014	8,783,424	8,783,424
Fiscal loss related to year ended December 31, 2015	764,212	764,212
Fiscal loss related to year ended December 31, 2016	20,531,081	20,531,081
Fiscal loss related to year ended December 31, 2017	29,315,406	-
<b>TOTAL</b>	<b>123,817,299</b>	<b>120,053,795</b>
Deferred tax asset unrecognised at 16%	19,810,768	15,285,226

The fiscal losses can be carriedforward for a period of maximum 7 years.

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**10. 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
<b>COST</b>						
<b>December 31, 2016</b>	<b>198,433,580</b>	<b>65,166,359</b>	<b>243,535,865</b>	<b>107,291,882</b>	<b>4,330,902</b>	<b>618,758,588</b>
Additions	-	278,241	501,861	16,143	874,081	1,670,326
Transfers	-	-	-	-	-	-
Disposals	-	-	36,109	4,489	702,896	743,494
Revaluation impact	(722,228)	(16,679,718)	-	-	-	(17,401,496)
<b>December 31, 2017</b>	<b>197,711,353</b>	<b>48,764,882</b>	<b>244,001,617</b>	<b>107,353,536</b>	<b>4,502,088</b>	<b>602,283,474</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>December 31, 2016</b>	<b>2,892</b>	<b>12,796,501</b>	<b>238,545,251</b>	<b>107,253,637</b>	<b>-</b>	<b>358,598,281</b>
Depreciation expense	34,707	4,298,631	1,305,187	15,853	-	5,653,478
Eliminated on disposals of assets	-	-	34,444	4,489	-	38,933
Revaluation impact	-	17,094,336	-	-	-	17,094,336
<b>December 31, 2017</b>	<b>37,599</b>	<b>796</b>	<b>239,815,994</b>	<b>107,264,101</b>	<b>-</b>	<b>347,118,490</b>

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**11. PROPERTY, PLANT AND EQUIPMENT (continued)**

	Land	Buildings and other constructions	Plant and machinery	Equipment and vehicles	Advances for fixed assets	Total
<b>IMPAIRMENT ALLOWANCE</b>						
December 31 2016	-	-	-	-	(3,705,815)	(3,705,815)
Impairment losses recognized in profit or loss account	-	-	-	-	(246,886)	(246,886)
December 31 2017	-	-	-	-	(3,952,701)	(3,952,701)
<b>NET BOOK VALUE</b>						
December 31 2016	198,430,688	52,369,858	4,990,614	38,245	625,087	256,454,493
December 31 2017	197,673,754	48,764,086	4,185,623	39,435	549,387	251,212,282

Advances granted for tangible assets included an amount of RON 3,602,600 as at December 31, 2014 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 entire value has been provided for as at December 31, 2017 and December 31, 2016.

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**11. PROPERTY, PLANT AND EQUIPMENT (continued)**

**Fair value of property, plant and equipment**

The Company's land and buildings are disclosed in the financial statements at revalued values, which is the fair value as at the valuation date less accumulated depreciation and impairment allowances.

The fair value of the Company's land was determined using the direct comparison method.

This method is recommended for properties when there is sufficient and reliable data on sales transactions or similar offers involving properties in the area. Analysis of prices at which the transactions were made or of the prices charged or offered for comparable properties is followed by adjustments to such prices, to quantify the differences between the prices paid, charged or offered due to differences between specific characteristics of each property, called elements of comparison.

The fair value of buildings was determined through the cost approach.

This method assumes that the maximum value of an asset for an informed buyer is the amount needed to buy or build a new asset of an equivalent utility. When the asset is not new, all forms of depreciation that can be assigned for those assets up to the valuation date should be subtracted from the current gross cost.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value as at December 31, 2016</u>
Land	-	-	198,430,688	198,430,688
Buildings and other constructions	-	-	52,369,858	52,369,858

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value as at December 31, 2017</u>
Land	-	-	197,673,754	197,673,754
Buildings and other constructions	-	-	48,764,086	48,764,086

The value at cost of property, plant and equipment as at December 31, 2017 and December 31, 2016, net of accumulated expenses with depreciation and impairment is presented below:

	<u>Value at cost December 31, 2017</u>	<u>Value at cost December 31, 2016</u>
Land	193,449,678	193,449,678
Buildings and other constructions	42,038,071	46,058,461
Plant and machinery	4,185,623	4,990,614
Equipment and vehicles	39,435	38,245
<b>TOTAL</b>	<b><u>239,712,807</u></b>	<b><u>244,536,997</u></b>

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**11. PROPERTY, PLANT AND EQUIPMENT (continued)**

**1. Pledged property, plant and equipment**

As at December 31, 2017 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 231,961,556(December 31, 2016: RON 250,456,369).

**2. Property, plant and equipment purchased under finance lease**

As at December 31, 2017, the net book value of the property, plant and equipment purchased under finance leases was of RON 0 (December 31, 2016: RON 0).

**12. INTANGIBLE ASSETS**

	<u>Development expenses</u>	<u>Other intangibles</u>	<u>Advances for intangibles</u>	<u>Total</u>
<b>COST</b>				
<b>December 31, 2016</b>	<b>217,867</b>	<b>2,331,020</b>	<b>146,569</b>	<b>2,695,456</b>
Additions	-	-	410,341	410,341
Disposals	-	-	-	-
<b>December 31, 2017</b>	<b>217,867</b>	<b>2,331,020</b>	<b>556,910</b>	<b>3,105,797</b>
<b>ACCUMULATED AMORTISATION</b>				
<b>December 31, 2016</b>	<b>(217,867)</b>	<b>(1,228,200)</b>	-	<b>(1,446,067)</b>
Amortisation expense	-	(462,356)	-	(462,356)
Eliminated on disposal of assets	-	-	-	-
<b>December 31, 2017</b>	<b>(217,867)</b>	<b>(1,690,556)</b>	-	<b>(1,908,423)</b>
<b>Balance as at December 31, 2016</b>	-	<b>1,102,820</b>	<b>146,569</b>	<b>1,249,389</b>
<b>Balance as at December 31, 2017</b>	-	<b>640,464</b>	<b>556,910</b>	<b>1,197,375</b>

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**13. OTHER ASSETS**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Guarantees on long-term	1,586,234	345,589
Commercial guarantees to be received	2,376,431	2,822,899
Provisions for guarantees	(246,677)	(547,284)
Other investments	1,818	1,818
Advance payments	192,211	-
Sundry debtors	1,224,924	515,577
VAT receivable	6,846,431	14,383,769
Less: Allowance for doubtful VAT receivable	-	(3,705,076)
<b>Total</b>	<b><u>11,981,371</u></b>	<b><u>13,817,292</u></b>

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. Following the fiscal inspection, there is an ongoing litigation between ANAF and Electroputere. On 5<sup>th</sup> of October 2017, The Appeal Court of Craiova issued Resolution no. 540 by cancelling partially the fiscal inspection report and rejected the request of Electroputere for VAT reimbursement. Ther resolution is not final and has been attacked by both parties. Based on management's best estimate related to the recoverability of these amounts as at December 31, 2017, the Company recorded a receivable equal to amount requested to be reimbursed initially of RON 8,507,956, less the amounts rejected by Appeal Court of RON 1,752,854. During the year 2017, Electroputere paid to ANAF the amount of RON 7,718,346, covering practically the whole debt claimed by ANAF. However, Electroputere paid all these amounts being forced by participation to public tenders and has never admitted or recognized the dbt. Until the approval of these financial statements for the year ended December 31, 2017 the case was not settled. Therefore, during financial year ended December 31<sup>st</sup> 2017, the Company paid the amount of RON 7,718,346 and reversed the provisions booked in previous years of RON 6,200,640.

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Guarantees on long-term	1,586,234	345,589
Other current assets	10,395,137	13,471,703
<b>Total</b>	<b><u>11,981,371</u></b>	<b><u>13,817,292</u></b>

**14. INVENTORIES**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Raw materials	12,843,313	10,106,795
Consumables	352,522	279,449
Materials in the form of inventory items	1,187,073	1,062,506
Packaging	470,959	251,865
Finished goods	2,468,024	2,733,219
Work in progress	5,213,921	2,750,304
Semi-finished goods	504,595	1,265,456
Residual products	5,556	7,532
Goods	47,369	47,369
Allowance for impairment of inventories	(9,166,596)	(8,661,832)
<b>Total</b>	<b><u>13,926,735</u></b>	<b><u>9,842,663</u></b>

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**14. INVENTORIES (continued)**

Inventories are carried at the lower of cost and net realisable value. The Company's policy of recognising allowances for obsolete inventories is for inventories between 6 and 12 months 25%, for inventories older than 12 months but not more than 24 months 50%, for inventories older than 24 months but not older than 36 months 75%, for inventories older than 36 months but not older than 48 months 80% and for those older than 48 months 99%.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Balance at the beginning of the year	8,661,832	6,635,749
Charge / (Release) in the current year	<u>504,764</u>	<u>2,026,083</u>
<b>Balance at the end of the year</b>	<b><u>9,166,596</u></b>	<b><u>8,661,832</u></b>

**15. TRADE AND OTHER RECEIVABLES**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Trade receivables	39,180,247	91,400,467
Trade receivables recognised under IAS 11	38,313,387	22,165,130
Allowance for doubtful receivables	(17,150,795)	(7,085,765)
Advances paid for inventories	371,146	120,935
Advances paid for services	<u>100,476</u>	<u>21,468</u>
<b>Total</b>	<b><u>60,814,460</u></b>	<b><u>106,622,235</u></b>

Trade and other receivables are carried at amortized cost, less any impairment losses.

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.

The Company is recording the due dates for the invoices issued based on the commercial clauses included in the contracts concluded between the parties. For the power transformer sales the commercial clauses usually include amounts that will be received by the Company after the put in function of the power transformer in the electric stations of the end customers. The due date of the invoice for the sales of power transformers can suffer changes depending on the date on which the electric station is ready to be used.

The trade receivables recognised under the construction contracts for the open orders as at the financial year end are presented above in the caption "Trade receivables recognised under IAS 11"

**Aging of receivables that are older than 60 days:**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
60-90 days	392,027	12,838,021
90-120 days	657,215	14,996,147
Over 120 days	<u>21,493,174</u>	<u>6,300,329</u>
<b>Total</b>	<b><u>22,542,416</u></b>	<b><u>34,134,497</u></b>

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**15. TRADE AND OTHER RECEIVABLES (continuare)**

Movement in allowance for trade receivables is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Balance at the beginning of the year	7,085,765	6,492,662
Increase in the current year recognized in P&L	<u>10,065,030</u>	<u>593,103</u>
<b>Balance at the end of the year</b>	<b><u>17,150,795</u></b>	<b><u>7,085,765</u></b>

**Aging of receivables past due and impaired:**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Over 120 days	<u>17,150,795</u>	<u>6,300,329</u>
<b>Total</b>	<b><u>17,150,795</u></b>	<b><u>6,300,329</u></b>

The Company has no receivables that are past due by more than 365 days and not impaired as at December 31, 2017 and December 31, 2016.

**16. CASH AND CASH EQUIVALENTS**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Bank accounts	1,422,412	1,450,328
Other	18,116	11,737
Cash equivalents	<u>-</u>	<u>1</u>
<b>Total</b>	<b><u>1,440,528</u></b>	<b><u>1,462,066</u></b>

**17. EMPLOYEE BENEFITS**

According to the Collective Labor Agreement of Electroputere, the employees have the following benefits:

- Retirement benefits: 1 x negotiated salary of the previous month to retiring
- Employee death allowance: 2 x medium salary in the company realized in the previous month
- Fidelity allowance: 1 x minimum salary in the company, paid when the employee reach the seniority of: 25, 30, 35 and 40 uninterrupted in the company.



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**17. EMPLOYEE BENEFITS (continued)**

During the previous years, the company has not recorded a provision for the employee benefits. For the year 2017, the provision has the following structure:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Retirement benefits	852,695	-
Death allowance	273,841	-
Fidelity allowance	921,515	-
<b>Total</b>	<b><u>2,048,051</u></b>	<b><u>-</u></b>

The following assumptions have been considered when the provision amount was calculated:

- Mortality rate of Romania, published by National institute of Statistics (INSSE) for the year 2013
- A rate of 5.9% for the personnel turnover, calculated as average of the last 5 years inside the company
- A balancing forward rate of 4.2%, calculated using the method Smith-Wilson
- Inflation rates using the statistics and prognosis issued by INSSE and NBR as following: 3.2% in 2018; 3.1% in 2019; lineary descending up to 2,5% in the period 2020-2023; 2.5% in 2024 - 2030 and following a descending trend for the following years
- Salary increase rates: an increase of 3% in 2018 and an average of 1% for the following years

The maturity analysis of the payment is presented below:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Up to 1 year	251,664	-
1-2 years	214,011	-
2-5 years	777,373	-
5-10 years	1,424,954	-
Above 10 years	1,536,916	-
<b>Total</b>	<b><u>4,204,918</u></b>	<b><u>-</u></b>

The sensitivity analysis is presented below:

<b>Assumptions</b>	<u>Post Employment Benefits</u>	<u>Other Long Term Benefits</u>	<u>Total obligations for the benefits (RON)</u>
<b>PVDBO at 31.12.2017</b>	<b><u>1,126,536</u></b>	<b><u>921,515</u></b>	<b><u>2,048,051</u></b>
Discount rate +1%	1,045,660	879,814	1,925,474
Discount rate -1%	1,217,017	966,875	2,183,892
Salary increase rate +1%	1,216,757	966,586	2,183,344
Salary increase rate -1%	1,044,403	879,286	1,923,699
Increase in longevity by 1 year	1,111,164	925,952	2,037,115

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**18. ISSUED CAPITAL**

Share capital is fully paid as at December 31, 2017 and December 31, 2016.

	<u>No. of shares</u>	<u>Share capital RON</u>
<b>Share capital at December 31, 2017</b>	<b><u>1,037,602,913</u></b>	<b><u>103,760,291</u></b>
<b>Share capital at December 31, 2016</b>	<b><u>1,037,602,913</u></b>	<b><u>103,760,291</u></b>

	<u>No. of shares</u>	<u>Procent</u>
<b>Shareholder structure December 31, 2017</b>		
Al-Arrab Contracting Company Ltd	991,284,640	95.53%
Other shareholders	<u>46,318,273</u>	<u>4.63%</u>
<b>Total</b>	<b><u>1,037,603,913</u></b>	<b><u>100%</u></b>

**Shareholder structure December 31, 2016**

Al-Arrab Contracting Company Ltd	991,284,640	95.53%
Other shareholders	<u>46,318,273</u>	<u>4.46%</u>
<b>Total</b>	<b><u>1,037,602,913</u></b>	<b><u>100%</u></b>

The Company is listed in the Bucharest Stock Exchange, having the symbol "EPT".

**19. RESERVES**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Legal reserves	17,784,866	17,784,866
Revaluation reserves	20,383,727	12,837,480
Other	<u>43,133,772</u>	<u>43,133,772</u>
<b>Total</b>	<b><u>81,302,365</u></b>	<b><u>73,756,118</u></b>

The revaluation reserve is related to revaluations performed on property, plant and equipment and cannot be used until they are realized. Revaluation reserves cannot be distributed.

The legal reserve created by the Company is in amount of RON 17,784,866 both as at December 31, 2016 and December 31, 2017.

Other reserves include reserves created before 2008 in amount of RON 43,133,772 (their value prior to inflation adjustment was RON 10,828,383). If the management decides to change their destination, they will be taxed. The management has decided not to use such reserves, thus no deferred tax has been established in relation thereto.

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**20. BORROWINGS**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<b>Loans guaranteed</b>		
Short term loans	81,391,776	99,831,972
Current portion of long term loans	112,619,260	95,586,586
<b>Loans guaranteed</b>		
Long term loans	<u>209,938,180</u>	<u>203,619,726</u>
<b>Total</b>	<u><b>402,949,216</b></u>	<u><b>399,038,284</b></u>

**a) Amounts due to credit institutions**

The Company contracted a credit facility amounting to 24,800,000 EUR from Blom Bank for the financing of working capital and for the payment of the outstanding debts towards state authorities. As at December 31, 2017 the outstanding balance of the credit facility is RON 81,391,776 (December 31, 2016: RON 99,831,972). The credit facility comprises the following credit limits:

- An overdraft loan of EUR 3,750,000 for the current activity, that can be utilized up until February 25, 2018, with an attached interest rate EURIBOR 1m plus 2.5% per annum but not lower than 4.75% per annum
- A revolving facility of EUR 7,000,000 EUR that can be utilized up until February 25 2018, 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 14,050,000 can be utilized up to February 25, 2018, with an attached interest rate of EURIBOR 1m plus 2.5%. per annum, but no lower than 4.75% per annum;

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, Ifov county with a surface of 184.000 sqm, property of SC Electroputere SA.

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**20. BORROWINGS (continued)**

**b) Amounts due to shareholders**

As at December 31, 2017 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 208,938,180 (December 31, 2016: RON 203,619,726, equivalent of EUR 44,839,296), granted for financing of working capital, environment and development investments, according to the obligations assumed under the privatization agreement no. 67/30.10.2007.

The Company received a notification letter from the shareholders stating that the loans provided to the Company are repayable by December 31, 2022.

Interest payable at December 31, 2017 on loans from shareholders amounts to RON 112,619,260, equivalent of EUR 24,168,779 (31 December 2016: RON 95,586,586, equivalent of 21,049,214 EUR), calculated at rates ranging between 0% and 6.5% per year.

The interest expense related to the shareholders loan for the year ended December 31, 2017 is in amount of RON 17,132,675 (for the year ended December 31, 2016: RON 14,152,719).

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.

**21. PROVISIONS**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Provisions for guarantees to customers	2,332,569	3,946,501
Provisions for restructuring	-	63,795
Provisions for onerous contracts	2,712,600	1,171,931
Provisions for penalties and interest related to the VAT reimbursement control (Note 13)	-	4,248,418
Provision for penalties for late delivery	4,552,479	-
Other provisions (*)	<u>453,114</u>	<u>4,028,375</u>
<b>Total</b>	<b><u>10,050,762</u></b>	<b><u>13,459,020</u></b>

(\*) Included in the other provision category as at December 31, 2016 is the amount of RON 3,681,433 related to penalties for late delivery

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**22. TRADE AND OTHER PAYABLES**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Trade payables	18,174,747	23,464,444
Invoices to be received	761,509	637,743
Advances from customers	11,890,499	13,841,439
Sundry creditors	437,500	1,293,277
Sundry creditors group related (Note 25)	74,448,847	52,300,221
<b>Total</b>	<b><u>105,713,103</u></b>	<b><u>91,537,124</u></b>

The sundry creditors related to the group are amounts paid by the Group companies – mainly Mada Group, to Electroputere’s suppliers. Whenever such a payment is made the trade payables are settled and a correspondent liability is recorded as Sundry creditors group related.

**23. OTHER CURRENT LIABILITIES**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Salaries payable	1,927,860	2,039,480
Social contributions	1,491,353	1,414,243
VAT to be paid	616,779	-
Other taxes	93,245	50,800
Tax on salaries	579,944	393,687
Other current liabilities	284,074	281,975
<b>Total</b>	<b><u>4,993,255</u></b>	<b><u>4,180,185</u></b>

**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.

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**24. FINANCIAL INSTRUMENTS (continued)**

**a) Capital risk management (continued)**

The gearing ratios as at December 31, 2017 and 2016 were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total borrowings	402,949,216	399,038,284
Less: cash and cash equivalents	<u>(1,440,528)</u>	<u>(1,462,066)</u>
<b>Net debt</b>	<b><u>401,508,688</u></b>	<b><u>397,576,218</u></b>
Total capital and reserves	(185,181,636)	(118,791,051)
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 2017 would increase / decrease by RON 189,302 (2016: RON 189,931). 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.

**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.

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**24. FINANCIAL INSTRUMENTS (continued)**

**d) Fair value of the financial instruments (continued)**

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.

**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.

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**24. FINANCIAL INSTRUMENTS (continued)**

**i) Foreign currency risk management**

The carrying amounts of the Entity's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

2017	EUR		USD		CHF		RON		December 31, 2017	
	1 EUR =	RON	1 USD =	RON	1 CHF =	RON	1 RON	RON	Total	RON
	<b>4.6597</b>	<b>RON</b>	<b>3.8195</b>	<b>RON</b>	<b>3.9900</b>	<b>RON</b>				
<b>Assets</b>										
Cash and cash equivalents	889,854		1,967		744		547,964		1,440,528	
Trade and other receivables	11,411,548		92,961		-		59,705,088		71,209,597	
Other non-current assets	-		-		-		1,586,234		1,586,234	
<b>Liabilities</b>										
Trade and other payables	90,513,265		541,342		130,602		21,659,200		112,754,409	
Borrowings short term and long term	368,604,056		-		-		34,345,160		402,949,216	
<b>Net exposure</b>	<b>(446,815,919)</b>		<b>(446,414)</b>		<b>(129,858)</b>		<b>5,924,925</b>		<b>(441,467,266)</b>	
<b>2016</b>										
<b>Assets</b>										
Cash and cash equivalents	1,155,053		(19,081)		735		325,359		1,462,066	
Trade and other receivables	47,444,217		12,625,961		-		60,023,760		120,093,938	
Other non-current assets	-		-		-		345,589		345,589	
<b>Liabilities</b>										
Trade and other payables	60,514,303		52,338		125,357		35,025,311		95,717,309	
Borrowings short term and long term	358,731,456		4,819,696		-		35,511,708		399,062,860	
Finance lease short term and long term	-		-		-		-		-	
<b>Net exposure</b>	<b>(370,646,488)</b>		<b>7,734,845</b>		<b>(124,622)</b>		<b>(9,842,311)</b>		<b>(372,878,576)</b>	



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**24. FINANCIAL INSTRUMENTS (continued)**

**i) Foreign currency risk management**

**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.

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<i>RON</i>	<i>RON</i>
Profit or loss +10%	(8,730,607)	(7,259,318)
Profit or loss -10%	8,730,607	7,259,318
<b>Impact on the profit as at:</b>		
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
EUR	(8,717,220)	(7,420,038)
USD	(10,249)	163,402
CHF	(2,959)	(2,682)
	<b>(8,730,607)</b>	<b>(7,259,318)</b>

**j) 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 could be required to pay. The table includes both interest and principal cash flows.

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<b>24. FINANCIAL INSTRUMENTS (continued)</b>						
<b>j) Liquidity risk management (continued)</b>						
<b>2017</b>	<b>Weighted average interest rate</b>	<b>Less than 1 month</b>	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
<b>Non-interest bearing</b>						
Trade and other payables		-	110,706,358	-	2,048,051	112,754,409
<b>Interest bearing instruments</b>						
	(EURIBOR 1M+2.5% but max 4.75%; EURIBOR 1M +7.5 b.p, but max 9.75%)					
Borrowing short and long term		-	194,011,036	-	208,938,180	402,949,216
Cash and cash equivalents		1,440,528	-	-	-	1,440,528
Trade and other receivables		-	71,209,597	-	-	71,209,597
<b>2016</b>						
<b>Non-interest bearing</b>						
Trade and other payables		-	95,717,309	-	-	95,717,309
<b>Interest bearing instruments</b>						
	(EURIBOR 1M+2.5% but max 4.75%; EURIBOR 1M +7.5 b.p, but max 9.75%)					
Borrowing short and long term		-	195,443,134	-	203,619,726	399,062,860
Cash and cash equivalents		1,462,066	-	-	-	1,462,066
Trade and other receivables		-	120,093,938	-	-	120,093,938

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**25. RELATED PARTY TRANSACTIONS**

Balances and transactions with related parties are as follows:

	Amounts receivable from Related Parties		Amounts payable to Related Parties	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	RON	RON	RON	RON
Al-Arrab Contracting Company Ltd	1,553,947	9,243,452	330,637,457	299,206,312
Mada Group for Industrial and Commercial investment	2,850	2,850	-	5,095,424
Mabani Steel	-	-	31,762	11,031
Osama Al-Halabi	-	12,099	273	1,320,142
Mada Gypsum Company Ltd	-	-	757,156	392,664
Cladtech International	-	-	1,421	1,421
Al Rahji	-	-	73,556,326	45,479,539
Saudi Waterproofing Company	-	-	3,399	-
Unipods LLC	-	-	98,510	-
Tony Akiki	-	753	-	-
<b>Total</b>	<b>1,556,797</b>	<b>9,259,154</b>	<b>405,086,304</b>	<b>351,506,533</b>
	<b>Sale of goods and services</b>		<b>Purchase of goods and services</b>	
	<b>12 months</b>	<b>12 months</b>	<b>12 months</b>	<b>12 months</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	RON	RON	RON	RON
Al -Arrab Contracting Company Ltd	-	-	14,662,826	14,010,497
Mabani Steel	-	-	-	-
Osama Al-Halabi	-	26,740	28,051	184
Unipods LLC	-	-	98,510	-
Mada Gypsum Company Ltd	-	-	228,155	-
<b>Total</b>	<b>26,740</b>	<b>26,740</b>	<b>711,653</b>	<b>301,682</b>

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## **26. COMMITMENTS AND CONTINGENCIES**

### **Litigations**

As at 31 December 2017 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.

As at the date of the issuance of the financial statements a fiscal control is ongoing covering the period 2010 – 2015 and the result has not yet been presented to the management. The management of the Company believes that the findings of the fiscal inspectors will not have a negative impact on the financial statements of the Company.

### **Taxation**

Taxation system in Romania is still developing trying to consolidate and harmonize with the European legislation. In this respect, there still are various interpretations of the tax laws. In certain cases, tax authorities may treat differently certain aspects and calculate supplementary taxes and levies and related interests and penalties.

According to the legislation in force, in 2017, interest and delay penalties were levied for tax payers' failure to pay their tax obligations on time.

In 2017, the interest value is 0.02% for each day of delay; the delay penalties are 0.01% for each day of delay.

In Romania, the fiscal year stays open for verifications during 5 years. The management estimates that the tax liabilities included in these financial statements are adequate.

In accordance with the provisions issued by the Ministry of Public Finance, which regulate the tax regime of items of equity which have not been subject to income tax as at their accounting registration, due to their nature, should the Company change the destination of revaluation reserves (by covering losses or allocation to shareholders), it will incur additional income tax liabilities.

### **Transfer pricing**

The tax laws in Romania have included rules regarding the transfer pricing between affiliates since 2000. The current legislative framework defines the "market value" principle for the transactions between affiliates, as well as methods of setting transfer pricing. In accordance with the relevant tax laws, the tax assessment of a transaction conducted between affiliates is based on the concept of the market price pertaining to the respective transaction. Based on this concept, transfer pricing need to be adjusted such as to reflect the market rates set between non-affiliates acting independently at arm's length. As a result, it is expected that the tax authorities should initiate thorough verifications of the transfer pricing, in order to make sure that the fiscal result and/or customs value of the imported goods are not distorted by the effect of the rates used for the transactions with affiliates. It is likely that the tax authorities should conduct verifications of the transfer pricing to determine whether the respective prices are at arm's length and the taxable base of the Romanian taxpayer is not distorted. The Company cannot quantify the result of such verification. The Company considers that the related party transactions were conducted at market rates.

### **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, 2016 and December 31, 2015 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.

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**27. RESULT PER SHARE**

	Year ended December 31, 2016	Year ended December 31, 2016
Loss of the year	(74,042,664)	(45,346,757)
No. of shares	1,037,602,913	1,037,602,913
<b>Earnings per share</b>	<b>(0.07)</b>	<b>(0.04)</b>

**28. SUBSEQUENT EVENTS**

Electroputere SA (as Seller), on January 30<sup>th</sup> 2018 has concluded with Electroputere Parc SRL (as Buyer), the sale contract no 303 having as object the transfer of the following assets (immovables):

- The immovable located in Craiova, 80 Calea Bucuresti, Dolj county, cadastral number 229268, registered with land book no. 229268 of Craiova Municipality, Dolj County, composed of the plot of land having a surface of 23,094 sqm, together with the buildings erected on it, having cadastral numbers 229268 - C1-C26;
- The immovable located in Craiova, 80 Calea Bucuresti, Dolj county, cadastral number 229269, registered with land book no. 229269 of Craiova Municipality, Dolj County, composed of the plot of land having a surface of 14,936 sqm, together with the buildings erected on it, having cadastral numbers 229269 - C1-C14;

Total contract price amounts to 9,887,800 Euro, out of which 7,704,500 Euro were paid at the signing date by the Buyer. The difference amounting to 2,183,300 Euro shall be paid within maximum 30 months as of the contract signing date.

The sale of the aforementioned assets will not influence the current activity of the company, being not used for such current activity.

In relation to the sale contract, the mortgage on aforementioned assets has been released by Blom Bank. As a consequence, the credit line contracted with Blom Bank was diminished by EUR 4,850,000, as following:

- Trough addendum no. 27 / 28.02.2018, with the amount of EUR 2,850,000
- Trough addendum no. 28 / 28.03.2018, with the amount of EUR 2,000,000

As a result of the above changes, the credit line contracted with Blom Bank has the following structure:

- An overdraft loan of EUR 2,440,00 for the current activity, that can be utilized up until June 28, 2018
- A revolving facility of EUR 7,000,000 EUR for issuing bank guarantee letters that can be utilized until June 29, 2020
- A revolving facility of EUR 10,510,000 for issuing letters of credit and financing sales contracts, that can be utilized up to April 28, 2019.

These financial statements were authorized for issue by management on April 25, 2018.

  
**OSAMA M.T. AL-HALABI**  
President

  
**BOGDAN PARASCHIV**  
CFO

## REPORT OF THE BOARD OF DIRECTORS OF ELECTROPUTERE S.A. ("The Company") FOR THE FINANCIAL YEAR 2017

### 1. LEGAL STATUS OF THE COMPANY AND STRUCTURE OF THE SHARE CAPITAL

Electroputere SA (hereinafter referred to as "Electroputere" or "The Company") was founded according to the Romanian legislation, as a joint-stock company, with the headquarters in CRAIOVA, 80 CALEA BUCURESTI Street, Zip Code 200440, DOLJ County, registered at the Trade Register Office with no. J16/12/1991, Unique Registration Code 6312800, Tax Attribute RO, Tel: +40372 403449, Fax: +40372 003056, contact person: Mr. Osama Al Halabi – CEO

#### a) Structure of the Share Capital

Before signing the Share Sale-Purchase Agreement and according to the shares registration application no. 6358/Aug. 16, 2004, the ownership structure of S.C. ELECTROPUTERE S.A. was the following:

SHAREHOLDERS	CAPITAL HOLDINGS	
	No. of Shares	Percentage of the Share Capital (%)
AVAS	78,009,632	62.83
Shareholders – Individuals and Companies	46,158,322	37.17
<b>Total</b>	<b>124,167,954</b>	<b>100.0000</b>

Consequently, to the transfer of ownership rights over the shares, on Nov. 13<sup>th</sup>, 2007 and according to the shares registration application no. 9526/March 4<sup>th</sup>, 2008, the ownership structure of S.C. ELECTROPUTERE S.A is the following:

SHAREHOLDERS	CAPITAL HOLDINGS	
	No. of Shares	Percentage of the Share Capital (%)
AL-ARRAB CONTRACTING COMPANY LIMITED	78,009,632	62.83
Shareholders – Individuals and Companies	46,158,322	37.17
<b>Total</b>	<b>124,167,954</b>	<b>100.0000</b>

At the end of 2008 it was started the process of share capital increase, which was completed in February 2009, according to the shares registration application no.8998/Feb. 11, 2009 the ownership structure was changed as follow:

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SHAREHOLDERS	CAPITAL HOLDINGS	
	No. Of Shares	Percentage of the Share Capital (%)
AL-ARRAB CONTRACTING COMPANY LIMITED	291,284,640	86.2802
Shareholders – Individuals and Companies	46,318,273	13.7198
<b>Total</b>	<b>337,602,913</b>	<b>100.0000</b>

As, at the end of 2013 it was started the process of share capital increase, which was completed in October 2014, according to the shares registration application no.47807/Oct. 22, 2014 the ownership structure was changed as follows:

SHAREHOLDERS	CAPITAL HOLDINGS	
	No. Of Shares	Percentage of the Share Capital (%)
AL-ARRAB CONTRACTING COMPANY LIMITED	991,284,640	95.5360309402
Shareholders – Individuals and Companies	46,318,273	4.4639690598
<b>Total</b>	<b>1,037,602,913</b>	<b>100.0000</b>

**b) Restrictions on Voting Rights**

The shareholders exercise their right to vote in the General Assembly proportionally to the number of shares they hold. Any paid share entitles the shareholder to vote in the General Assembly.

The shareholders – legal entities – are represented in the general assemblies by their legal representatives, who may sign a special power of attorney for persons other than the shareholders.

The administrators, managers and white-collar workers of the Company, are not entitled to represent the shareholders in the general assembly, under penalty of invalidation of decision, if the majority is not met without their votes.

The right to vote cannot be transferred.

**c) Appointment and Replacement of Board Members**

Appointment and replacement of Board members is done in ordinary general assemblies of shareholders. The persons appointed or replaced are elected from the candidates nominated by the Company operating administrators or shareholders.

In case one or more administrators are in holiday at the time, the Board of Directors foregoes the appointment of some temporary administrators until the ordinary general assembly of shareholders takes place.

At any time, the administrators can be called off by the general assembly of shareholders.

**d) Powers of the Board Members regarding the Share Issuance and Redemption**

The changes in the social capital, in terms of increase, are made according to the legal provisions and in line with the company Act of Incorporation, by decision of the Board.

**e) Amendment of the Act of Incorporation**

The Act of Incorporation of the company can be amended only in Extraordinary General Assemblies of Shareholders.

**f) Internal Audit**

The Company Internal Audit aims at ensuring:

- the compliance with the legislation in force;
- the implementation of decisions taken by the company management;
- the efficient operation of the company internal activities;
- the reliability of the financial data;
- the efficiency of the company operations;
- the efficient use of resources;
- the prevention and control of the risks of not achieving the targets.

Consequently, the objectives of the internal audit are the following:

- on the one hand, to align the company activity and staff's behavior to the applicable law, values, norms and internal rules of the company;
- on the other hand, to check if the accounting, financial and management information is an accurate reflection of the company activity and status.

The auditing activities are part of the management process, by which the company aims to achieve the intended objectives. The audit involves the implementation of internal audit norms and procedures, at all hierarchical and functional levels: approval, authorization, inspection, evaluation of the operational performances, asset securing, functions de-merger.

## **2. SCOPE OF ACTIVITY AND PRODUCTION STRUCTURE OF THE COMPANY**

**The main scope of activity** in which the company operates is the industry of electrical apparatus and machines, **CAEN Code 27**.

**The main activity** of the Company consists in the production of electrical motors, generators and transformers –**CAEN Code 2711**.

The company carries out economic activity in the production of electrical motors, generators and transformers; electricity distribution & control apparatus and engineering & repair of rolling stock.

**The main categories of products for 2017 are:**

- electric rotating machines;
- power transformers;

Besides these products, the company develops additional (secondary) activities/services, such as:

- tools, devices and testers (sensitive testers, dies, devices for the electrotechnical industry, etc.);
- repair and upgrade of equipment and technological installations (repairs on machinery, electrical motors < 150 kw, convertors, lifting devices, spare parts, etc.).



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In 2017, Electroputere SA had **2 manufacturing divisions and one division of general services:**

- Electrical Rotating Machines;
- Transformers;
- General Services

### 3. ORGANIZATION STRUCTURE AND HEADCOUNTS

On Dec. 31, 2017, the number of personnel went up compared to Dec. 31, 2016, due to hiring (10 employees) that took place in 2017; the personnel are allotted among divisions as per below:

Electrical Rotating Machines Division	213
Power Transformers Division	438
General Services Dept.	136
<b>TOTAL</b>	<b>787</b>

### 4. ACTUAL REVENUE AND EXPENDITURES

According to the P&L concluded on Dec. 31, 2017, the key indicators compared to 2016 are as follow (the amounts are expressed in lei (RON) at the price of the time):

	<u>Year ended December 31, 2017</u>	<u>Year ended, December 31, 2016</u>
Revenue	98,620,345	90,190,306
Cost of sales	<u>(94,374,560)</u>	<u>(83,415,515)</u>
<b>Gross profit</b>	<b><u>4,245,560</u></b>	<b><u>6,774,791</u></b>
Administration expenses	(24,163,574)	(20,819,661)
Other operating expenses	(22,738,177)	(8,006,649)
Distribution expenses	(2,378,043)	(2,902,638)
Other gains and losses	(11,516,333)	(1,405,473)
Finance costs	(18,930,293)	(18,993,073)
Finance income	<u>591</u>	<u>5,946</u>
Loss before tax	(75,480,044)	(45,346,757)
Income tax credit	<u>1,437,380</u>	<u>-</u>
<b>Loss for the year</b>	<b><u>(74,042,664)</u></b>	<b><u>(45,346,757)</u></b>
<b>Other comprehensive income, net of tax</b>		
Gain on revaluation of properties	8,983,627	-
Deferred income tax	<u>(1,437,380)</u>	<u>-</u>
<b>Total comprehensive income</b>	<b><u>(66,496,417)</u></b>	<b><u>(45,346,757)</u></b>

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According to the analysis of the above indicators, one can see an increase of 9.35% of the total income, compared to 2016 and of 13.14% of the cost of sales. In 2017 the Company registered a net loss in amount of 66,496,417 lei.

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

	<b>December 31 2017</b>	<b>December 31 2016</b>
Revenues from sales of goods	95,845,172	87,296,326
Revenue from commodities	-	-
Revenue from rendering of services	664,794	1,186,266
Other revenues	2,110,379	1,707,714
<b>Total</b>	<b>98,620,345</b>	<b>90,190,306</b>

	<b>Segment revenue</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Domestic sales (Romania)	68,545,856	21,289,898
Sales on foreign markets	30,074,489	68,866,796
<b>Total</b>	<b>98,620,345</b>	<b>90,190,306</b>

**Segmentation revenue and profits**

	<b>Segment revenues</b>		<b>Segment profit/(losses)</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Power transformers	78,913,696	75,957,384	(29,404,917)	(14,613,220)
Electric engines	18,957,068	13,324,454	(5,160,917)	(6,805,228)
Others	749,581	778,618	(39,476,830)	(23,928,309)
<b>Total from operations</b>	<b>98,620,345</b>	<b>90,190,306</b>	<b>(74,042,664)</b>	<b>(45,346,220)</b>

Sales of power transformers increased with 3.89% compared to 2016.

Sales of rotating machines increased with 42.27% compared to 2016.

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**Information by geographic area**

	<b>Revenues per geographic area</b>	
	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Romania	68,545,856	21,289,898
KSA	10,578,269	49,105,601
Italy	5,190,209	7,511,241
Egypt	2,503,787	858,114
Czech Republic	1,597,039	-
Nederland	1,445,975	382,457
Israel	1,418,562	-
Kazakhstan	990,030	1,190,380
Lithuania	933,734	1,290
Bulgaria	618,181	-
Kosovo	481,728	128,575
Morocco	464,131	-
Sweden	327,643	6,527
Jordan	292,307	28,203
Lebanon	250,319	127,207
Greece	136,640	6,622,156
Germany	13,167	245,612
Pakistan	-	909,418
Tunisia	-	243,616
USA	-	151,165
Others	2,832,768	99,153
<b>Total</b>	<b>98,620,345</b>	<b>90,190,306</b>

The Cost of Sales was structured as follows:

**COST OF SALES**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Raw materials	62,951,106	50,807,185
Consumables expenses	2,058,678	2,062,799
Packages expenses	5,956	2,926
Energy, water and gas	2,183,888	2,487,911
Repairs	-	348
Staff costs	19,632,036	19,205,085
Depreciation and amortization related to non-current assets	3,436,502	3,723,001
Others	2,395	7,113
Third party services	3,407,596	3,731,201
Received discounts	(495,040)	-
Transportation expenses	660,378	1,137,623
Telecommunication expenses	58,902	104,101
Rent	119,583	94,312
Environmental expenses	338,999	51,910
Protocol, promotion and advertising expenses	13,579	-
<b>Total</b>	<b>94,374,560</b>	<b>83,415,515</b>

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**5. INFORMATION ON COMPANY ASSETS AND LIABILITIES**

See below the balance sheet on Dec. 31, 2017 compared to Dec. 31, 2016 and to Dec. 31, 2015 (values are in lei):

<b>ASSETS</b>	<b>31 dec.2017</b>	<b>31 dec.2016</b>	<b>31 dec.2015</b>
<b>Non-current assets</b>			
Property, plant and equipment	251,212,282	256,454,493	261,729,820
Intangible assets	1,197,375	1,249,389	1,699,094
Other assets	1,586,234	345,589	1,381,635
<b>Total non-current assets</b>	<b>253,995,891</b>	<b>258,049,471</b>	<b>264,810,549</b>
<b>Current assets</b>			
Inventories	13,926,735	9,842,663	15,094,781
Trade and other receivables	60,814,460	106,622,235	83,024,980
Other assets	10,395,137	13,471,703	9,251,814
Cash and cash equivalents	1,440,528	1,462,066	2,869,571
<b>Total current assets</b>	<b>86,576,860</b>	<b>131,398,667</b>	<b>110,241,146</b>
<b>Total assets</b>	<b>340,572,751</b>	<b>389,448,138</b>	<b>375,051,695</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Issued capital	103,760,291	103,760,291	103,760,291
Reserves	81,302,365	73,756,118	73,756,118
Retained earnings	(370,244,292)	(296,307,460)	(250,960,703)
<b>Total equity</b>	<b>(185,181,636)</b>	<b>(118,791,051)</b>	<b>(73,444,294)</b>
<b>Non-current liabilities</b>			
Borrowings	208,938,180	203,619,726	202,875,394
Employees benefits liabilities	11,796,387	-	-
Other non-current liabilities	-	24,576	143,177
<b>Total non-current liabilities</b>	<b>210,734,567</b>	<b>203,644,302</b>	<b>203,018,571</b>
<b>Current liabilities</b>			
Trade and other payables	105,713,103	91,537,124	73,667,589
Employees benefits liabilities	251,664	-	-
Borrowings	194,011,036	195,418,558	160,367,430
Provisions	10,050,762	13,459,020	8,773,459
Short term finance lease and other interest-bearing obligations	-	-	-

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Other current liabilities	4,993,255	4,180,185	2,668,940
<b><u>Total current liabilities</u></b>	<b><u>315,019,820</u></b>	<b><u>304,594,887</u></b>	<b><u>245,477,418</u></b>
<b><u>Total liabilities</u></b>	<b><u>525,754,387</u></b>	<b><u>508,239,189</u></b>	<b><u>448,495,989</u></b>
<b><u>Total equity and liabilities</u></b>	<b><u>340,572,751</u></b>	<b><u>389,448,138</u></b>	<b><u>375,051,695</u></b>

Total stocks increased by 4,084 thousands lei, which is 41.49 %. The stocks structure is as follows:

	<u>31 dec.2017</u>	<u>31 dec.2016</u>	<u>31 dec.2015</u>
Raw materials	12,843,313	10,106,795	13,141,512
Consumables	352,522	279,449	315,923
Materials in the form of inventory items	1,187,073	1,062,506	830,937
Packaging	470,959	251,865	528,006
Finished goods	2,468,024	2,733,219	2,418,685
Work in progress	5,213,921	2,750,304	3,157,769
Semi-finished goods	504,595	1,265,456	1,273,135
Residual products	5,556	7,532	17,194
Goods	47,369	47,369	47,369
Allowance for impairment of inventories	(9,166,596)	(8,066,937)	(6,635,749)
<b>Total</b>	<b><u>13,926,735</u></b>	<b><u>9,842,663</u></b>	<b><u>15,094,781</u></b>

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

	<u>31 Dec, 2017</u>	<u>31 Dec, 2016</u>	<u>31 Dec, 2015</u>
Balance at the beginning of the year	8,661,832	6,635,749	7,819,340
(Release)/Charge in the current year	504,764	2,026,083	(1,183,591)
<b>Balance at the end of the year</b>	<b><u>9,166,596</u></b>	<b><u>8,661,832</u></b>	<b><u>6,635,749</u></b>

Total receivables decreased by 45,807 thousands lei, respectively with 42.96%, as compared to 2016.

	<u>31 Dec. 2017</u>	<u>31 Dec. 2016</u>	<u>31 Dec. 2015</u>
Trade receivables	39,180,247	91,400,467	84,841,064
Trade receivables recognized under IAS 11	38,313,387	22,165,130	4,317,709
Allowance for doubtful receivables	(17,150,795)	(7,085,765)	(6,492,662)
Advances paid for inventory	371,146	120,935	337,525
Advances paid for services	100,476	21,468	21,344
<b>Total</b>	<b><u>60,814,460</u></b>	<b><u>106,622,235</u></b>	<b><u>83,024,980</u></b>

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Movement in allowance for trade receivables is as follows:

	<u>31 Dec. 2017</u>	<u>31 Dec. 2016</u>	<u>31 Dec. 2015</u>
Balance at the beginning of the year	7,085,765	6,492,662	521,762
Charge/(Release) in the current year	10,065,030	593,103	5,970,900
<b>Balance at the end of the year</b>	<b><u>17,150,795</u></b>	<b><u>7,085,765</u></b>	<b><u>6,492,662</u></b>

Total debts went up 3.45%. Since privatization and till the end of 2017, the Company has been permanently financially assisted by the majority shareholder.

On Dec. 31, 2017, the Company registered total debts of 525,754,387 lei, as follows:

	December 31, 2017 RON	December 31, 2016 RON
<b>Non-current liabilities</b>		
Borrowings	208,938,180	203,619,726
Employees benefits liabilities	1,796,387	-
Other non-current liabilities	-	24,576
<b>Total non-current liabilities</b>	<b>210,734,567</b>	<b>203,644,302</b>
<b>Current liabilities</b>		
Trade and other payables	105,713,103	91,537,124
Employees benefits liabilities	251,664	-
Borrowings	194,011,036	195,418,558
Provisions	10,050,762	13,459,020
Short term finance lease and other interest bearing obligations	-	-
Other current liabilities	4,993,255	4,180,185
<b>Total current liabilities</b>	<b>315,019,820</b>	<b>304,594,887</b>
<b>Total liabilities</b>	<b>525,754,387</b>	<b>508,239,189</b>
<b>Total equity and liabilities</b>	<b>340,572,751</b>	<b>389,448,138</b>

## 6. SIGNIFICANT EVENTS DURING 2017

Following Company's Extraordinary General Meeting of the Shareholders' Decision no 71/26.04.2017, negotiations were continued for selling the Property.

First sale-purchase agreement was concluded on January 30<sup>th</sup> 2018, for selling of two plots from the Property for the overall price of 9,887,800 Euro. Such transaction is concluded in 2018, thus not reflected in the 2017 financial statements.

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Negotiations are ongoing for finalizing selling of the entire Property, as approved by GSM decision no 71/26.04.2017

## **7. RISK MANAGEMENT**

### **a. Exchange Rate Risk**

Exchange rate risk involves the risk that the value of a financial instrument varies because of the fluctuations in the exchange rate.

The Company is exposed to the currency fluctuations in its commercial and financial transactions. The exchange rate risk arises from the recognized trading assets and liabilities, including loans, which were made in foreign currency.

### **b. Risk of Interest Rate on Cash Flow and Fair Value**

The risk of interest rate on cash flow is the risk that the future cash flows fluctuate because of changes in the interest rates on the market.

The fair value interest rate risk is the risk that the value of a financial instrument varies due to changes in the market interest rates. Financial instruments bear interest at market rate; therefore it is considered that their fair values do not differ significantly from the book value.

### **c. Credit Risk**

The credit risk refers to the risk by which one party of the financial instrument fails to comply with its commitment, causing the other party a financial loss.

The Company is subjected to a credit risk due to its trade receivables and other types of claims. The Company has policies to ensure that sales are concluded with customers with appropriate references on their creditworthiness. The debts maturity date is carefully monitored and overdue payments are promptly followed. Trade receivables (customers) are presented net by adjustments of the doubtful receivables depreciation. The Company develops policies that limit the amount of credit exposure to any financial institution.

### **d. Liquidity Risk**

Liquidity risk (also called funding risk) refers to the risk by which an entity could have difficulties in securing the necessary funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to quickly sell a financial asset at a value close to its fair value.

A safe management of liquidity risk implies maintaining sufficient cash and available credit lines by a continuous monitoring of the estimated and actual cash flow and by the correlation of maturity dates for assets and liabilities. Due to the nature of its business, the Company seeks to maintain flexibility in the funding opportunities by means of the support granted by the majority owner.

### **e. Fair Value of the Financial Instruments**

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

- The fair value of the assets and financial debts with standard terms and transactiones on active liquid markets is determined through reference to the quoted market prices;

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- The fair value of other assets and financial debts (excluding derivative instruments) is determined in conformity with the generally accepted price models, based on the analysis of the forecasted cash-flow, by using prices from current transactions to be observed on the market and
- The fair value of the derivative instruments is calculated by using quoted prices. When such prices are not available the analysis of the forecasted cash-flows is used, by analyzing the yield curve applicable to the duration of the derivative instruments that do not include options and option evaluation models for derivative instruments that have options at their basis.

The financial instruments in the company balance sheet include commercial receivables and other types of receivables, cash and cash equivalents, short and long term loans and other debts. The estimated fair values of these instruments assess their accounting values. The accounting values represent the maximum credit risk for the Company, pertaining to the existing receivables.

## 8. BOOK LOSS COVERAGE

On Dec. 31, 2017, the Company registered an accumulated loss of 296,307,461 RON, negative net assets in the amount of RON 185,181,636, net current liabilities in amount of RON 228,442,960 and the loss for the year then ended amounts to RON 74,042,664.

## 9) CORPORATE GOVERNANCE

In September 2015, the Bucharest Stock Exchange issued a new Corporate Governance Code ("the Code"). The Code became effective on January 4, 2016, after a transition period. Currently, the Code is being analyzed by the management of the Company, with the involvement of all departments impacted by the Code, with the objective of developing an action program to ensure compliance with the Code. The main cause of noncompliance with some of the provisions of the Code result from the particularities and the history of the Company. As of 28 January 2016, the Company has submitted the Statement on the compliance with the Code during the transition period, listing the provisions that are not complied with as of 31 December 2015. Moreover, according to the continuous reporting mechanism, any changes in the corporate governance will be disclosed through the current reports.

As of 31 December 2017, Electroputere SA Board of Directors consists of 5 members (one position is currently vacant) and majority of its members are non-executive directors. Provisions for managing conflicts of interest are specified in the mandate agreement concluded between the Company and directors.

As of 31.12.2017, the Company has complied partially with the obligation to set up an Investor Relations department - indicating to the general public the person / persons or organizational unit responsible, meaning that this service is under the responsibility of the Company's Legal Department. The Company has included on its website a section dedicated to investor relations in Romanian and English, with relevant information of interest to investors, namely the General Meetings of Shareholders, Financial Reports, Corporate Governance, periodic reporting, Current News Releases. Professional CVs of the members of the management bodies of the Company and other professional commitments of Board members are not yet posted on the Internet.

As of 31.12.2017, the Company included on its website current and periodic reports (quarterly and annual) and the financial statements and auditors' reports.



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Shareholders' meetings rules do not limit the participation of shareholders at general meetings and the exercising of their rights. The external auditors are present at the general meeting of shareholders when their reports are discussed at these meetings. Any specialist, consultant, expert or financial analyst can attend the shareholders meeting under a prior invitation from the Board. Accredited journalists can also attend the General Meeting of Shareholders, unless the Board decides otherwise. Quarterly and half-yearly financial reports include information both in Romanian and in English on the key factors that influence changes in the levels of sales, EBIT, net profit and other relevant financial indicators.

In fiscal year 2017, the Company has not organized meetings/conference calls with analysts and investors.

Considering the above items and the conclusions provided under the report of the financial auditor, the Board of Directors submits for the approval of the Ordinary General Shareholders' Meeting:

- the discharge of the Board of Directors for the financial year 2017;
- report of the financial auditor on the financial statements of Electroputere S.A., for 2017;
- the separate financial statements of the Company prepared for the financial year 2017;

  
**CHAIRMAN OF THE BOARD OF DIRECTORS  
AHMED IBRAHIM AL BASSAM**