

Translation from Romanian

**Report 2014 according to Regulation no. 1/2006**

Reporting date: Febr. 13, 2014

Name of the Trade Company: S.C. Electroputere S.A.

Headquarters: Craiova, 80 Calea București Street, Dolj County

Tel: 0251 / 437119; Fax: 0372003056

Tax Code: 6312800

Registration in the Trade Register: J16/12/1991

Subscribed and paid up capital: 103.760.291,31

Regulated market where issued securities are traded: Bucharest Stock Exchange

**1. The report on the main events occurred during the relevant period of time and their impact on the issuer's financial situation and its branches.**

- 2.400.000 Euro in cash, from the major shareholder, to improve the financial situation so that to support the production of power transformers and electrical motors.
- the share capital increase action was completed at 22nd October 2014. The share capital has been increased with 70.000.000 RON with the transformation of a part of the debt to the shareholder in shares.

**2. Economical and financial indicators:**

Indicator	Calculation method	Result
Current liquidity ratio	Current assets/ debts	0.5
Indebtedness indicator	Loan capital / Equity *100 Loan capital / Capital employed *100	-
Rate of debit turnover - customers	Average balance client / Turnover*365	105
Rate of fixed assets turnover	Turnover / Fixed assets	0.5

**3. Economical and financial situation and analysis of S.C. Electroputere S.A. activity on Dec. 31, 2014.**

Synthetic comparative situation (2013 - 2014) are presented as follow:

**S.C. ELECTROPUTERE S.A.  
FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2014**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION**

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

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

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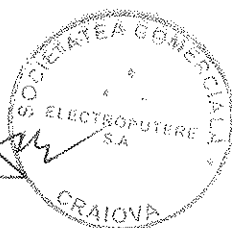
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	31 december 2014 RON	31 december 2013 RON
Revenue	4	131,118,750	96,397,312
Cost of sales	5	(105,900,945)	(91,511,575)
<b>Gross Profit</b>		<b>25,217,805</b>	<b>4,885,737</b>
Administration expenses	9	(25,861,533)	(37,758,111)
Other operating expenses	7	(5,107,703)	(9,039,073)
Other gains and losses	6	1,292,905	(4,339,256)
Finance costs	8	(21,108,390)	(20,907,824)
Profit before tax		(25,566,916)	(67,158,527)
Income tax expenses		-	94,173
<b>Loss for the year</b>		<b>(25,566,916)</b>	<b>(67,064,354)</b>
<b>Other comprehensive income, net of tax</b>			
Gain on revaluation of properties			-
<b>Total comprehensive income</b>		<b>(25,566,916)</b>	<b>(67,064,354)</b>

FINANCIAL MANAGER:  
Name: LAVINIA PETCU  
Signature \_\_\_\_\_



PRESIDENT  
Name: OSAMA ALHALABI  
Signature \_\_\_\_\_

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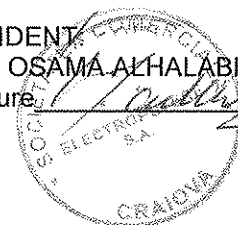
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**STATEMENT OF FINANCIAL POSITION**

	Note	31 december 2014 RON	31 december 2013 RON
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		265,912,782	270,701,574
Intangible assets		1,691,284	1,392,823
Other non-current financial assets		-	-
Other assets		347,725	286,209
<b>Total non-current assets</b>		<b>267,951,791</b>	<b>272,380,606</b>
<b>Current assets</b>			
Inventories	10	12,747,891	16,045,843
Trade and other receivables	11	69,552,328	73,353,461
Other assets	9	14,652,535	7,992,229
Cash and cash equivalents	12	3,201,052	2,236,108
<b>Total active circulante</b>		<b>100,153,806</b>	<b>99,627,641</b>
<b>Total current assets</b>			
		368,105,597	372,008,247
<b>Total assets</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Issued capital	13	1,055,987,861	985,987,861
Reserves	14	73,756,118	73,756,117
Retained earnings		(1,169,153,849)	(1,143,586,931)
<b>Total equity</b>		<b>(39,409,870)</b>	<b>(83,842,953)</b>
<b>Non-current liabilities</b>			
Borrowings	15	200,974,208	261,804,969
Long term finance lease and other interest bearing obligations			-
Debts related to income tax			-
Provisions			-
Other non-current liabilities		118,130	118,130
<b>Total non-current liabilities</b>		<b>201,092,338</b>	<b>261,923,099</b>
<b>Current liabilities</b>			
Trade and other payables	17	51,208,915	60,450,422
Borrowings	15	150,827,647	122,691,207
Provisions	16	1,639,279	7,502,525
Short term finance lease and other interest bearing obligations	19	-	92,959
Other current liabilities	18	2,747,288	3,190,988
<b>Total current liabilities</b>		<b>206,423,129</b>	<b>193,928,101</b>
<b>Total liabilities</b>		<b>407,515,467</b>	<b>455,851,200</b>
<b>Total equity and liabilities</b>		<b>368,105,597</b>	<b>372,008,247</b>

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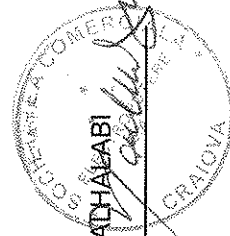
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STATEMENT OF CHANGES IN EQUITY

	Share capital	Elements similar to capital	Other reserves	Revaluation reserves	Retained earnings	Retained earnings from the transition to IFRS	Total
Balance at January 1, 2014	33,760,291	952,227,570	60,918,636	12,837,481	(568,746,171)	(574,840,761)	(83,842,954)
Loss of the year					(25,566,916)		(25,566,916)
Share capital increase	70,000,000						70,000,000
Balance at December 31, 2014	103,760,291	952,227,570	60,918,636	12,837,481	(594,313,087)	(574,840,761)	(39,409,870)

FINANCIAL MANAGER:  
 Name: LAVINIA PETCU  
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**S.C. ELECTROPUTERE S.A.**  
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STATEMENT OF CASH FLOWS

	31 december 2014 RON	31 december 2013 RON
<b>Cash flow from operating activities</b>	<b>(unaudited)</b>	<b>(audited)</b>
<b>Net loss</b>	<b>(25,566,916)</b>	<b>(67,158,527)</b>
Adjustments		
Depreciation and amortization	5,947,717	5,830,325
Adjustments for depreciation of fixed assets		
Allowances for doubtful receivables	(1,894,760)	(2,018,163)
Allowances for slow moving and obsolete inventories	(101,301)	(1,401,181)
Provisions	(5,863,246)	2,258,872
Net income/(loss) from sale/write off fixed assets	1,436	(958,752)
Net interest expenses	21,108,389	20,969,751
Unrealized forex differences	(1,534,818)	8,340,669
Impairment of assets following evaluation	-	2,362,051
<b>Movements in working capital</b>		
(Increase)/Decrease in trade and other receivables	(964,413)	15,893,597
(Increase)/Decrease in inventories	3,399,253	4,308,515
(Increase)/Decrease of good exec.guarantees granted to customers	(61,516)	(201,977)
(Increase)/Decrease in trade and other	(9,685,207)	16,993,494
<b>Cash generated/(used) in operations</b>	<b>(15,215,382)</b>	<b>5,218,675</b>
Interest paid	(4,490,790)	(8,151,767)
Interest received	14,264	30,963
<b>Net cash used in operating activities</b>	<b>(19,691,519)</b>	<b>(2,902,129)</b>
<b>Cash flow from investing activities</b>		
Payments for acquisitions of property, plant and equipment and intangible assets	(1,458,822)	(992,106)
Proceeds from disposals of property, plant and equipment	-	2,283,030
<b>Net cash used in investing activities</b>	<b>(1,458,822)</b>	<b>1,290,924</b>
<b>Cash flow from financing activities</b>		
Amounts granted by Al-Arrab Contracting Co	10,844,900	-
Increase in loans from		
- shareholders		
- financial institutions	11,363,345	(126,294)
Payments for leasing	(92,959)	(39,559)
<b>Net cash(used)/generated by financing activities</b>	<b>22,115,286</b>	<b>979,421</b>
Net decrease in cash and cash equivalents	964,945	(1,777,058)
<b>Cash and cash equivalents at the beginning of the year</b>	<b>2,236,108</b>	<b>4,013,166</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>3,201,053</b>	<b>2,236,108</b>

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Semnătura \_\_\_\_\_



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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-Arrab Contracting Company Limited being the major shareholder.

The address of the registered office of the Company is: Craiova, Bucuresti street, no 80.  
Electroputere S.A. is listed on Bucharest Stock Exchange, having the symbol „EPT“.

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Statement of compliance***

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

***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

***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.

As of december 31, 2014 the Company recorded an accumulated loss in the amount of 1.169.153.849 RON, negative net assets in the amount of 39.409.870 RON, net current liabilities in amount of 106.269.323 RON, and the loss for the year then ended amounts to 25.566.916 RON. These matters indicate an uncertainty regarding the Company's ability to continue as a going concern and an increased liquidity risk. In addition, according to statutory commercial law 31/1990, revised, in the event where the administrators ascertain that, further to incurring losses, the net assets, calculated as the difference between total assets and total liabilities of the Company, are less than half the value of the share capital, the administrators shall convene the general meeting of shareholders to decide whether to increase the share capital or to reduce it to the remaining value or to dissolve the Company. Management believes that it is unlikely that the Company will be subject to dissolution procedures in the future.. As a result, the Company's capacity to continue as a going concern depends on its ability to generate sufficient future income and on the financial support from its shareholders. Management believes that such a support will be available whenever necessary. These financial statements do not include adjustments that might arise from this uncertainty regarding the ability of the Company to continue as a going concern.

**The principal accounting policies are presented below:**

**Revenue recognition**

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



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#### 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.

#### Rendering of services

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

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

#### Interest income

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

#### Construction contracts

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

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

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

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts, where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the statement of financial position, as a liability, as advances

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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.

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;

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

### **Borrowing costs**

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

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

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

### **Employee benefits**

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

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

### **Taxation**

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

#### **Current tax**

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

#### **Deferred tax**

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

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

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

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

Current and deferred tax for the year

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

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

**Property, plant and equipment**

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

Cost

The Entity's land and buildings were presented at the date of the transition to International Financial Reporting Standards based on deemed cost, which is equal to the market value of these assets at the date of the transition determined based on a revaluation carried out by an independent appraiser. Subsequently the land and buildings held by the Company have been revalued and are carried in the financial statements at revalued cost. At December 31, 2014, the buildings and land have not been revalued by an independent appraiser, member of ANEVAR organization, because the real estate market has stagnated, last assessment being made on 31 December 2013.

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

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

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

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

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

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derecognised upon disposal or when no future economic benefits are expected to arise from the continue use of the asset.

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

Depreciation and amortization

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

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

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

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

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

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

Subsequent expenditure

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

**Intangible assets**

Intangible assets acquired separately

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

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;

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

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

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

#### Derecognition of intangible assets

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

#### **Impairment of tangible and intangible assets other than goodwill**

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

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

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

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.

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### **Inventories**

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

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

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

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

### **Provisions**

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

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

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

### Onerous contracts

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

### **Restructuring**

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

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

#### Effective interest method

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

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

#### Financial assets at FVTPL

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

A financial assets is classified as held for trading if:

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

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

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

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

#### Financial liabilities

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

#### Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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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**Related parties**

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

**Operating segments**

An operating segment is a component of the Entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment information is presented in respect of the Entity's business and geographical segments and is determined based on the Entity's management and internal reporting structure.

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

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

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

**Use of estimates**

In the application of the Entity's accounting policies, as described above, the directors are 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 an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical accounting judgements**

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

**i) Impairment of tangible and intangible assets**

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

**ii) Useful lives of property, plant and equipment**

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

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- iii) Restructuring provisions
- iv) Deferred taxes
- v) Provisions and contingent liabilities

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

### 3. REVENUES

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

	31 december 2014	31 december 2013
	RON	RON
	(unaudited)	(audited)
<b>Revenues</b>		
Revenues from sales of goods	126,900,911	90,727,398
Revenue from commodities	427,412	658,128
Revenue from rendering of services	833,055	280,650
Other revenues	2,957,372	4,731,136
<b>Total</b>	<b>131,118,750</b>	<b>96,397,312</b>

### 4. COST OF SALES

	31 december 2014	31 december 2013
	RON	RON
	(unaudited)	(audited)
Raw materials	76,653,854	64,064,142
Consumables expenses	1,224,549	1,279,634
Packages expenses	25,703	5,055
Energy, water and gas	693,475	2,000,452
Repairs	66,983	548,360
Staff costs	17,941,210	14,963,933
Depreciation and amortization related to non-current assets	5,986,078	5,859,044
Others	20,487	28,629
Third party services	2,899,357	2,327,999
Cost of goods sold	389,248	434,327
<b>Total</b>	<b>105,900,945</b>	<b>91,511,575</b>

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**5. OTHER GAINS AND LOSSES**

	31 december 2014	31 december 2013
	RON	RON
	(unaudited)	(audited)
Income from sale of property, plant and equipment	1,436	2,283,030
Net income from sale of shares	-	-
Expenses with disposal of property, plant and equipment	-	(940,412)
Income/ (expense) net of exchange differences		
Income from sale of property, plant and equipment	<b>1,436</b>	<b>1,342,618</b>
Net income from sale of shares		
Expenses with disposal of property, plant and equipment		
Income/ (expense) net of exchange differences	1,294,341	(5,681,874)
<b>Total</b>	<b>1,292,905</b>	<b>(4,339,256)</b>

**6. OTHER OPERATING EXPENSES**

	31 december 2014	31 december 2013
	RON	RON
	(unaudited)	(audited)
Other income	2,029,618	1,352,837
Income/(expense) net of adjustments for current assets	(961,051)	2,625,253
Write-off of doubtful debts	(584,726)	(4,324,788)
Income/(expense) net of provisions for risks and charges	4,015,072	(2,366,955)
Transport of goods and personnel	(9,682,174)	(4,723,260)
Impairment related to property, plant and equipment	72,845	(1,602,806)
Other expenses	2,713	646

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<b>Total</b>	<b>(5,107,703)</b>	<b>(9,039,073)</b>
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**7. FINANCIAL COSTS, NET**

	<b>31 december 2014</b>	<b>31 december 2013</b>
	<b>RON</b>	<b>RON</b>
	<b>(unaudited)</b>	<b>(audited)</b>
Interest income	14,654	30,963
Interest from loans and leasing	(21,123,045)	(20,938,787)
Income from discounting of long-term receivables	-	-
<b>TOTAL</b>	<b>(21,108,391)</b>	<b>(20,907,824)</b>

**8. ADMINISTRATIVE EXPENSES**

	<b>31 december 2014</b>	<b>31 december 2013</b>
	<b>RON</b>	<b>RON</b>
	<b>(unaudited)</b>	<b>(audited)</b>
Energy, water and gas	2,721,235	2,440,860
Repairs expenses	3,319	304,971
Rental expenses	189,910	192,880
Insurance premiums	304,358	326,486
Studies and research expenses	-	-
Staff costs	8,825,812	18,861,456
Fees and charges	3,679,203	2,919,998
Entertainment, promotion and advertising	124,921	293,079
Travel expenses	906,646	1,312,572
Post and telecommunications	153,802	204,760
Other third party services	3,289,425	5,594,546
Other taxes, charges and similar expenses	1,405,828	1,608,375
Environment expenses	96,235	119,273
Consumables expenses	1,291,888	641,103

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Bank charges	2,003,362	1,421,591
Other administrative expenses	865,589	1,516,161
<b>TOTAL</b>	<b>25,861,533</b>	<b>37,758,111</b>

**9. OTHER ASSETS**

	<u>31 december 2014</u>	<u>31 december 2013</u>
	RON (unaudited)	RON (audited)
Guarantees on long-term	347,725	286,209
Commercial guarantees paid	396,108	1,192,379
Adjustments for impairment of financial assets	(225,924)	(1,121,764)
Other investments	1,818	1,818
Amounts paid in advance	-	-
Sundry debtors	389,158	225,855
Recoverable taxes	14,091,375	7,693,941
<b>Total</b>	<b>15,000,260</b>	<b>8,278,438</b>

**10. INVENTORIES**

	<u>31 december 2014</u>	<u>31 december 2013</u>
	RON (unaudited)	RON (audited)
Raw materials	11,831,977	11,324,626
Consumables	668,008	570,994
Materials in the form of inventory items	1,071,394	780,909
Packaging	182,326	85,174
Finished goods	2,535,872	1,510,662
Work in progress	2,242,254	7,664,842
Semi-finished goods	1,228,358	1,202,604
Residual products	25,430	45,061
Goods	-	-
Allowance for impairment of inventories	(7,037,728)	(7,139,029)
<b>Total</b>	<b>12,747,891</b>	<b>16,045,843</b>

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

	<u>31 december 2014</u>	<u>31 december 2013</u>
	RON (unaudited)	RON (audited)
Balance at the beginning of the year	7,139,028	8,540,209
(Release)/Charge in the current year	<u>(101,301)</u>	<u>(1,401,181)</u>
<b>Balance at the end of the year</b>	<b><u>7,037,728</u></b>	<b><u>7,139,028</u></b>

**11. TRADE AND OTHER RECEIVABLES**

	<u>31 december 2014</u>	<u>31 december 2013</u>
	RON (unaudited)	RON (audited)
Trade receivables	44,412,023	25,338,349
Trade receivables recognised under IAS 11	25,248,136	49,522,197
Allowance for doubtful receivables	(226,953)	(2,245,145)
Advances paid for inventory	101,096	719,235
Advances paid for services	<u>18,026</u>	<u>18,825</u>
<b>Total</b>	<b><u>69,552,328</u></b>	<b><u>73,353,461</u></b>

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

Aging of receivables that are older than 60 days:

	<u>31 december 2014</u>	<u>31 december 2013</u>
	RON	RON
60-90 days	1,228,869	3,468,714
90-120 days	1,525,389	285,355
Over 120 days	<u>1,300,739</u>	<u>26,704,648</u>
<b>Total</b>	<b><u>4,054,997</u></b>	<b><u>30,458,717</u></b>



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Movement in allowance for trade receivables is as follows:

	<u>31 december 2014</u>	<u>31 december 2013</u>
	RON (unaudited)	RON (audited)
Balance at the beginning of the year	2,121,712	4,263,308
Charge/(Release) in the current year	<u>(1,894,760)</u>	<u>(2,141,596)</u>
<b>Total</b>	<u>226,953</u>	<u>2,121,712</u>

Aging of receivables past due and impaired:

	<u>31 december 2014</u>	<u>31 december 2013</u>
	RON	RON
Over 120 days	<u>226,953</u>	<u>2,121,712</u>
<b>Total</b>	<u>226,953</u>	<u>2,121,712</u>

**12. CASH AND CASH EQUIVALENTS**

	<u>31 december 2014</u>	<u>31 december 2013</u>
	RON (unaudited)	RON (audited)
Bank accounts	3,200,761	2,223,187
Petty cash	-	-
Other	-	12,921
Cash equivalents	<u>291</u>	<u>-</u>
<b>Total</b>	<u>3,201,052</u>	<u>2,236,108</u>

**13. ISSUED CAPITAL**

Share capital is fully paid in.

	<u>No. of shares</u>	<u>Share capital</u>
		RON
<b>Share capital at</b>		
<b>December 31, 2013</b>	337.602.913	33.760.291
Effect of inflation on capital		<u>952.227.570</u>
<b>Share capital at December 31, 2013</b>		<u>985.987.861</u>

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	<u>No. of shares</u>	<u>Share capital</u> RON
<b>Share capital at</b>		
<b>December 31, 2014</b>	1.037.602.913	103.760.291
Effect of inflation on capital		952.227.570
<b>Share capital at December 31, 2014</b>		<b>1.055.987.861</b>

**14. RESERVES**

	<u>31 december</u> <u>2014</u> RON (unaudited)	<u>31 december</u> <u>2013</u> RON (audited)
Legal reserves	(17,784,866)	(17,784,866)
Revaluation reserves	(12,837,479)	(12,837,479)
Other	(43,133,772)	(43,133,772)
<b>Total</b>	<b>(73,756,117)</b>	<b>(73,756,117)</b>

**15. BORROWINGS**

	<u>31 december</u> <u>2014</u> RON (unaudited)	<u>31 december</u> <u>2013</u> RON (audited)
<b><u>Loans guaranteed</u></b>		
Short term loans	83,469,990	72,106,646
Current portion of long term loans	67,357,657	50,584,561
<b><u>Loans guaranteed</u></b>		
Long term loans	200,974,208	261,804,969
<b>Total</b>	<b>351,801,855</b>	<b>384,496,176</b>

**a) Amounts due to credit institutions**

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

- An overdraft loan of 3.000.000 EUR for the current activity, that can be utilized up until March 31, 2015, with an attached interest rate of EURIBOR 1m plus 2.5% fix margin per annum, but no lower than 4.75% per annum;

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- A loan of EUR 5,300,000 for the full payment of budget obligations, that can be utilized up until March 31, 2015, with an attached interest rate of EURIBOR 1m plus 2.5 p.p. per annum, but no lower than 4.75% per annum;
- A revolving facility of EUR 8,500,000 EUR, for the issuance of warranty letters, that can be utilized up until March 31, 2015, with an attached interest rate of EURIBOR 1m plus 7.5 p.p. per annum, but no lower than 9.75% per annum;
- A revolving facility of EUR 9,000,000 EUR, for the issuance of letters of credit for import, with an attached interest rate of EURIBOR 1m plus 2.5% fix margin per annum, but no lower than 4.75% per annum, that can be utilized up until March 31, 2015.
- A revolving facility of EUR 4,000,000 for advances for the financing of agreements, that can be utilized up until March 31, 2015, with an attached interest rate of EURIBOR 1m plus 2.5 p.p. 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

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**b) Sume datorate acționarilor**

At Decembrie 31, 2014, the amounts owed to the shareholders, are long-term loans from the main shareholder of the Company, Al-Arrab Contracting Company Ltd, in the amount of 44.839.296 EUR, equivalent of 200.974.208 RON (december 31st 2013: 261.804.969 RON), granted for financing of working capital, environment and development investments, according to the obligations assumed under the privatization agreement no. 67/30.10.2007.

Interest payable at december 31, 2014 on loans from shareholders amounts to 67.357.658 RON (31st december 2013: 50.584.562 RON), calculated at rates ranging between 0% and 6.5% per year.

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.

**16. PROVISIONS**

	<u>31 december 2014</u>	<u>31 december 2013</u>
	RON (unaudited)	RON (audited)
Provisions for litigations	-	-
Provisions for guarantee to customers	-	1,344,402
Provisions for restructuring	64,087	2,734,757
Provisions for onerous contracts	1,269,894	3,118,068
Other provisions	305,298	305,298
<b>Total</b>	<u>1,639,279</u>	<u>7,502,525</u>

Provisions for restructuring are provisions for redundancy payments to be paid to employees made redundant during 2013 and 2014, in accordance with the collective labor agreement.

**17. TRADE AND OTHER PAYABLES**

	<u>31 december 2014</u>	<u>31 december 2013</u>
	RON (unaudited)	RON (audited)
Trade payables	22,871,931	26,433,502
Invoices to be received	3,316,120	1,847,482
Advances from customers	17,408,542	

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		27,393,804
Sundry creditors	7,612,322	4,775,634
<b>Total</b>	<b>51,208,915</b>	<b>60,450,422</b>

**18. OTHER CURRENT LIABILITIES**

	31 december 2014 RON (unaudited)	31 december 2013 RON (audited)
Wages	1,909,678	1,879,625
Social contributions	344,760	694,395
Income tax	-	-
VAT payable	-	-
Other taxes	5,472	4,737
Tax on salaries	224,739	321,877
Interest to be paid	-	-
Other current liabilities	262,639	290,354
<b>Total</b>	<b>2,747,288</b>	<b>3,190,988</b>

**19. FINANCE LEASE LIABILITIES**

	31 december 2014 RON (unaudited)	31 december 2013 RON (audited)
Within one year		99,868
Over 1 year and less than 5 years		-
<b>Total</b>		<b>99,868</b>
Less future finance charges		6,909
<b>Present value of lease obligations</b>		<b>92,959</b>

**20. 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.

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

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

The gearing ratios as at 31st december 2014 și 31st december 2013 were as follows:

	<u>31 december 2014</u>	<u>31 december 2013</u>
Total borrowings	351.801.856	384.589.135
Less: cash and cash equivalents	<u>(3.200.761)</u>	<u>(2.236.108)</u>
<b>Net debt</b>	<b><u>348.601.095</u></b>	<b><u>382.353.027</u></b>
Total capital and reserves	(39.409.870)	(83.842.953)
Gearing ratio	N/a	N/a

**b) Interest rate risk management**

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

**Interest rate sensitivity**

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

If interest rates would be higher / lower by 1% (100 basis points) and all other variables are held constant, the Company's net loss for 2013 would increase / decrease by RON 209,388 (2012: RON 183,685). This is mainly attributable to the Entity's exposure to interest rates on its variable interest rate USD and EUR denominated borrowings.

pe întreaga perioadă viitoare de raportare în cazul împrumuturilor cu rata de dobândă fluctuantă.

**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);

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- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available using discounted cash flow analysis, based on the yield curve which do not include options models and valuation models for derivatives which have options pricing models.

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

**a) 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 loan denominated in foreign currency. Due to the high costs associated with Company policy is not to use derivative financial instruments to mitigate this risk.

**21. COMMITMENTS AND CONTINGENCIES**

**Potential liabilities:**

**Litigations**

As at 30th september 2014 the Entity is subject to a number of lawsuits arising in the normal course of business. The Company's management believes that these actions will not have a material adverse effect on economic performance and financial position of the Company.

**Taxation**

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

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

**Environment**

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

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

**22. SUBSEQUENT EVENTS**