

ADMINISTRATORS' REPORT S.C. ELECTROPUTERE S.A. 2013

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: 0251-43.77.00, Fax: 0251-43.77.30, contact person: Mr. Anders Knut Lundgren – 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
Total	124,167,954	100.0000

Consequently to the transfer of ownership rights over the shares, on Nov. 13th, 2007 and according to the shares registration application no. 9526/March 4th, 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
Total	124,167,954	100.0000

As, 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:

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
Total	337,602,913	100.0000

By Extraordinary General Shareholders Meeting Decision no 43 from November 6th 2013, the shareholders decided the increase of Company registered capital by issuing a maximum of 811,309,649 shares having a nominal value of 0.1 RON/share, in exchange for new contributions in cash and by partial compensation of the certain and liquid debt for the total amount of EUR 68,748,903.61 (EUR 58,377,365 representing the principal and EUR 10,371,538.61 representing interest loan), coming from loan agreements, that the majority shareholder – AL-ARRAB CONTRACTING COMPANY LIMITED – has over the Company. Currently, the formalities for implementing this decision are on-going.

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 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.).

In 2013, 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, 2013, the number of personnel in each division went down compared to Dec. 31, 2012, due to the layoff (269 employees) that took place in 2013:

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Electrical Rotating Machines Division	181
Power Transformers Division	407
General Services Dept.	158
TOTAL	746

4. ACTUAL REVENUE AND EXPENDITURES

According to the P&L concluded on Dec. 31, 2013, the key indicators compared to 2012 are as follow (the amounts are expressed in lei (RON) at the price of the time):

	<u>Year ended December 31, 2013</u>	<u>Year ended, December 31, 2012</u>
		Restated*
Revenue	96,397,313	127,917,376
Cost of sales	(91,511,575)	(106,227,858)
Gross profit	<u>4,885,737</u>	<u>21,689,518</u>
Administration expenses	(37,758,111)	(46,247,340)
Other operating expenses	(9,039,073)	(31,261,475)
Other gains and losses	(4,339,256)	17,224,390
Finance costs	20,938,788	(18,368,483)
Financial income	30,963	178,698
Profit before tax	(67,158,527)	(56,784,692)
Income tax expenses	94,173	3,235,848
Loss for the year	<u>(67,064,354)</u>	<u>(53,548,844)</u>
Other comprehensive income, net of tax		
Gain on revaluation of properties	494,409	16,988,201
Total comprehensive income	<u>(66,569,945)</u>	<u>(36,560,643)</u>

According to the analysis of the above indicators, one can see a decrease of 24.65% of the total income, compared to 2012 and of 13.86% of the cost of sales. In 2013 the Company registered a net loss in amount of 67,064,354 lei.

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

	<u>December 31 2013</u>	<u>December 31 2012</u>
Revenues from sales of goods	90,727,398	124,975,560
Revenue from commodities	658,128	126,010
Revenue from rendering of services	280,650	212,586

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Other revenues	4,731,136	2,603,220
Total	96,397,312	127,917,376

	Segment revenue	
	December 31, 2013	December 31, 2012
Domestic sales (Romania)	18,340,754	59,577,304
Sales on foreign markets	78,056,558	68,340,072
Total	96,397,312	127,917,376

Segmentation revenue and profits

	Segment revenues		Segment profits/(losses)	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Power transformers	74,954,658	87,159,553	(29,968,43839, 581,315)	(7,048,133)
Electric engines	17,427,338	22,516,686	(5,235.5625,37 8,535)	(1,379,313)
Others	4,015,316	18,241,137	(31,860.35622, 104,504)	(39,748,180)
Total from operations	96,397,312	127,917,376	(67,064,354)	(48,175,626)

The decrease of sales volume was mainly due to the decrease in the sales of power transformers of 14.01% compared to the previous year, having in mind also the world economic crisis and the decrease of sales on the Romanian market (the main market for Transformers Division in 2012), as one can see from sales information by geographic area.

Although sales were affected by lower of sales in Romania, there is an improvement on the Greek market, and the Company has strengthened its presence in Saudi Arabia to enter new markets in Middle East (Iraq).

The sale of rotating machines decreased 22.61% compared to 2012.

Information by geographic area

	Revenues per geographic area	
	31-Dec-13	31-Dec-12
Grecia	40,559,088	23,484,144
Arabia Saudita	23,743,189	18,483,928
Romania	18,521,108	59,577,304
Germania	5,717,811	3,768,000
Italia	1,977,259	8,133,000
Siria	-	1,691,000



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Turcia	1.619.037	-
Iraq	1,391,852	1,640,000
Pakistan	846.447	-
Iordania	602,206	205,000
Liban	231,035	912,000
USA	150,688	348,000
Cipru	95.187	-
Tunisia	16.773	-
Egipt	4,260	2,272,000
Siria	-	1,691.000
Kosovo	-	209,000
Maroc	-	1,824,000
Olanda	-	2,170,000
Altele	921,372	1,576,000
Total	96,397,312	127,917,376

The Cost of Sales was structured as follows:

COST OF SALES

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Raw materials	64,064,142	70,336,863
Consumables expenses	1,279,634	3,224,284
Packages expenses	5,055	3,241
Energy, water and gas	2,000,452	2,468,240
Repairs	548,360	2,636,369
Staff costs	14,963,933	17,227,340
Depreciation and amortization related to non-current assets	5,859,044	5,112,808
Others	28,629	1,467,447
Third party services	2,327,999	3,546,882
Cost of goods sold	434,327	204,384
Total	91,511,575	106,227,858

GOING CONCERN

The 2013 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 equipment.

As at December 31, 2013, the Company recorded an accumulated loss in the amount of RON 1,143,586,931, negative net assets in the amount of RON 83,842,953, net current liabilities in amount of RON 94,300,460 and the loss for the year then ended amounts to RON 67,064,354. These matters



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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 following 12 months. 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.

5. INFORMATION ON COMPANY ASSETS AND LIABILITIES

See below the balance sheet on Dec. 31, 2013 compared to Dec. 31, 2012 and to Dec. 31, 2011 (values are in lei):

ASSETS	31 dec.2013	31 dec.2012	31 dec.2011
Non-current assets			
Property, plant and equipment	270,661,710	278,661,710	297,574,226
Intangible assets	1,392,823	1,423,608	1,318,512
Other non-current financial assets	-	-	3,562,669
Other assets	286,209	84,232	283,905
Total non-current assets	272,380,606	280,169,550	302,739,312
Current assets			
Inventories	16,045,843	18,953,178	11,885,536
Trade and other receivables	73,353,461	89,712,591	100,026,620
Other assets	7,992,229	5,508,533	11,218,259
Cash and cash equivalents	2,236,108	4,013,166	5,208,461
Total current assets	99,627,641	118,187,468	128,338,876
Total assets	372,008,247	398,357,018	431,078,188
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	985,987,861	985,987,861	985,987,861
Reserves	73,756,117	73,261,708	61,785,408
Retained earnings	(1,143,586,931)	(1,076,522,578)	(1,027,915,235)
Total equity	(83,842,953)	(17,273,009)	19,858,034
Non-current liabilities			
Borrowings	261,804,969	258,535,836	252,172,704
Long term finance lease and other interest bearing obligations	-	39,559	92,661

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Other non-current liabilities	118,130	194,071	213,500
Total non-current liabilities	261,923,099	258,769,466	252,478,865
Current liabilities			
Trade and other payables	60,450,422	42,424,365	59,230,768
Borrowings	122,691,207	104,958,944	89,180,579
Provisions	7,502,525	5,243,653	5,813,837
Short term finance lease and other interest bearing obligations	92,959	103,092	50,972
Other current liabilities	3,190,988	4,130,508	4,465,134
Total current liabilities	193,928,101	156,860,562	158,741,290
Total liabilities	455,851,200	415,630,028	411,220,155
Total equity and liabilities	372,008,247	398,357,018	431,078,188

Total stocks decreased by 2.907 thousand lei, which is 15.33 %. The stocks structure is as follows:

	<u>31 dec.2013</u>	<u>31 dec.2012</u>	<u>31 dec.2011</u>
Raw materials	11,324,626	14,099,984	12,035,905
Consumables	570,994	666,167	750,047
Materials in the form of inventory items	780,909	-	247,104
Packaging	85,174	28,325	108,370
Finished goods	1,510,662	3,110,715	2,219,061
Work in progress	7,664,842	7,988,322	6,008,176
Semi-finished goods	1,202,604	1,519,028	796,385
Residual products	45,061	80,846	78,825
Allowance for impairment of inventories	(7,139,029)	(8,540,209)	(10,358,337)
Total	16,045,843	18,953,178	11,885,536

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

	<u>31 Dec, 2013</u>	<u>31 Dec, 2012</u>	<u>31 Dec, 2011</u>
Balance at the beginning of the year	8,540,209	10,358,337	6,116,523
(Release)/Charge in the current year	(1,401,181)	(1,818,128)	4,241,814
Balance at the end of the year	7,139,029	8,540,209	10,358,337

Total receivables decreased by 16.359 thousand lei, respectively with 18.23%, as compared to 2012.



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	<u>31 Dec. 2013</u>	<u>31 Dec. 2012</u>	<u>31 Dec. 2011</u>
Trade receivables	25,338,349	56,453,882	101,811,477
Trade receivables recognized under IAS 11	49,522,197	36,977,817	-
Allowance for doubtful receivables	(2,245,145)	(4,263,308)	(3,465,367)
Advances paid for inventory	719,235	544,200	1,679,236
Advances paid for services	18,825	-	1,274
Total	<u>73,353,461</u>	<u>89,712,519</u>	<u>100,026,620</u>

Movement in allowance for trade receivables is as follows:

	<u>31 Dec. 2013</u>	<u>31 Dec. 2012</u>	<u>31 Dec. 2011</u>
Balance at the beginning of the year	4,263,308	3,465,367	4,740,026
Charge/(Release) in the current year	(2,141,596)	797,941	(1,274,659)
Balance at the end of the year	<u>2,121,712</u>	<u>4,263,308</u>	<u>3,465,367</u>

Total debts went up 9.67%. Since privatization and till the end of 2013, the Company has been permanently financially assisted by the majority shareholder.

On Dec. 31, 2013, the Company registered total debts of 455.851.200 lei, as follows:

	<u>December 31, 2013 RON</u>	<u>December 31, 2012 RON Restated*</u>
Non-current liabilities		
Borrowings	261,804,969	258,535,836
Long term finance lease and other interest bearing obligations	-	39,559
Other non-current liabilities	118,130	194,071
Total non-current liabilities	<u>261,923,099</u>	<u>258,769,466</u>
Current liabilities		Restated*
Trade and other payables	60,450,422	42,424,364
Borrowings	122,691,207	104,958,944
Provisions	7,502,525	5,243,653
Short term finance lease and other interest bearing obligations	92,959	103,092
Other current liabilities	3,190,988	4,130,508
Total current liabilities	<u>193,928,101</u>	<u>156,860,561</u>
Total liabilities	<u>455,851,200</u>	<u>415,630,027</u>



Significant Events during 2012

In 2013, the Company signed a selling contract of "Electric Apparatus brand" for a total value of 400.000 EUR, with Aparataj AE Soft SRL Craiova.

On November 6th, 2013, by Decision no 43 of the Extraordinary General Shareholders Meeting, it has been decided the increase of Company registered capital by issuing a maximum of 811,309,649 shares having a nominal value of 0.1 RON/share, in exchange for new contributions in cash and by partial compensation of the certain and liquid debt for the total amount of EUR 68,748,903.61 (EUR 58,377,365 representing the principal and EUR 10,371,538.61 representing interest loan), coming from loan agreements, that the majority shareholder – AL-ARRAB CONTRACTING COMPANY LIMITED – has over the Company. Currently, the formalities for implementing this decision are on-going.

6. 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 (Note 5). 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 transactioned on active liquid markets is determined through reference to the quoted market prices;
- 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.

7. OTHER TECHNICAL AND ORGANIZATIONAL ACTIONS TAKEN IN ORDER TO STREAMLINE THE COMPANY IN 2013

- Optimize production flow;
- Improve working conditions in terms of immediate environment and labor protection;
- Upgrade the computers used in the company and the implementation of a professional ERP information system;
- Improve the management system by changing the decision-making system;
- Improve the quality assurance system;
- Reorganize the existing processes.

8. BOOK LOSS COVERAGE

On Dec. 31, 2013, the Company registered a cumulated loss of 1,143,586,931 RON (from which 574.840.761 RON for adopting IFRS) and the loss of the year ended on that date is 67,064,354 RON and shall be covered from the subsequent book profit.


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