

## REPORT OF THE BOARD OF DIRECTORS OF ELECTROPUTERE S.A. ("The Company") FOR THE FINANCIAL YEAR 2015

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

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

#### a) Structure of the Share Capital

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

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

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

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

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

S.C. ELECTROPUTERE S.A.  
 REPORT ON FINANCIAL STATEMENTS  
 AT DECEMBER 31<sup>st</sup> 2015  
 (all the amounts are considered in Ron, unless otherwise specified)

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

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

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

**b) Restrictions on Voting Rights**

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

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

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

The right to vote cannot be transferred.

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

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

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

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

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

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

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

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

#### f) **Internal Audit**

The Company Internal Audit aims at ensuring:

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

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

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

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

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

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

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

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

**The main categories of products for 2015 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.).

S.C. ELECTROPUTERE S.A.  
 REPORT ON FINANCIAL STATEMENTS  
 AT DECEMBER 31<sup>ST</sup> 2015  
 (all the amounts are considered in Ron, unless otherwise specified)

In 2015, 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, 2015, the number of personnel went up compared to Dec. 31, 2014, due to hiring (14 employees) that took place in 2015; the personnel are allotted among divisions as per below:

Electrical Rotating Machines Division	175
Power Transformers Division	424
General Services Dept.	141
<b>TOTAL</b>	<b>740</b>

### 4. ACTUAL REVENUE AND EXPENDITURES

According to the P&L concluded on Dec. 31, 2015, the key indicators compared to 2014 are as follow (the amounts are expressed in lei (RON) at the price of the time):

	<u>Year ended December 31, 2015</u>	<u>Year ended, December 31, 2014</u>
Revenue	149,583,371	132,652,240
Cost of sales	(124,836,985)	(111,958,077)
<b>Gross profit</b>	<b><u>24,746,386</u></b>	<b><u>20,694,163</u></b>
Administration expenses	(19,741,519)	(22,255,889)
Other operating expenses	(1,431,583)	(5,025,850)
Distribution expenses	(5,799,429)	(9,572,777)
Other gains and losses	(4,163,138)	1,290,662
Finance costs	(17,259,645)	(21,123,044)
Finance income	25,668	14,654
Loss before tax	(23,623,260)	(35,978,080)
Income tax credit	-	-
<b>Loss for the year</b>	<b><u>(23,623,260)</u></b>	<b><u>(35,978,080)</u></b>
<b>Other comprehensive income, net of tax</b>		
Gain on revaluation of properties	-	-
<b>Total comprehensive income</b>	<b><u>(23,623,260)</u></b>	<b><u>(35,978,080)</u></b>

S.C. ELECTROPUTERE S.A.  
 REPORT ON FINANCIAL STATEMENTS  
 AT DECEMBER 31<sup>st</sup> 2015  
 (all the amounts are considered in Ron, unless otherwise specified)

According to the analysis of the above indicators, one can see an increase of 12.76% of the total income, compared to 2014 and of 11.53% of the cost of sales. In 2015 the Company registered a net loss in amount of 23,623,260 lei.

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

	<u>December 31 2015</u>	<u>December 31 2014</u>
Revenues from sales of goods	147,250,291	128,434,401
Revenue from commodities	-	427,412
Revenue from rendering of services	255,302	833,055
Other revenues	<u>2,077,778</u>	<u>2,957,372</u>
<b>Total</b>	<b><u>149,583,371</u></b>	<b><u>132,652,240</u></b>

	<b>Segment revenue</b>	
	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Domestic sales (Romania)	29,205,010	16,082,849
Sales on foreign markets	<u>120,378,361</u>	<u>116,569,391</u>
<b>Total</b>	<b><u>149,583,371</u></b>	<b><u>132,652,240</u></b>

**Segmentation revenue and profits**

	<b>Segment revenues</b>		<b>Segment profit/(losses)</b>	
	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Power transformers	130,178,900	108,301,001	5,250,640	(13,494,079)
Electric engines	18,474,739	23,554,478	(2,808,811)	(699,577)
Others	<u>929,732</u>	<u>796,761</u>	<u>(26,065,089)</u>	<u>(21,784,424)</u>
<b>Total from operations</b>	<b><u>149,583,371</u></b>	<b><u>132,652,240</u></b>	<b><u>(23,623,260)</u></b>	<b><u>(35,978,080)</u></b>

The increase of sales volume was mainly due to the increase in the sales of power transformers of 20.20% compared to the previous year, having in mind the increase of sales on Romania and foreign markets (KSA main market for 2015), as one can see from sales information by geographic area. The sale of rotating machines decreased by 21.57% compared to 2014.

S.C. ELECTROPUTERE S.A.  
 REPORT ON FINANCIAL STATEMENTS  
 AT DECEMBER 31<sup>st</sup> 2015  
 (all the amounts are considered in Ron, unless otherwise specified)

**Information by geographic area**

	<b>Revenues per geographic area</b>	
	<b>31-Dec-15</b>	<b>31-Dec-14</b>
KSA	61,005,578	51,127,594
Greece	34,512,133	42,373,953
Romania	29,205,010	16,082,849
Italy	12,350,717	6,756,217
Egypt	4,142,276	354,413
Iraq	1,958,195	4,353,511
Lebanon	1,214,787	127,766
Syria	1,111,571	-
Nederland	810,259	2,227,201
Sweden	782,016	-
Kazakhstan	468,991	-
Bulgaria	299,395	-
Russia	213,550	-
Jordan	172,567	-
USA	130,961	1,067,924
Germany	-	6,199,479
Morocco	-	1,201,515
Cyprus	-	62,160
Others	205,366	163,568
<b>Total</b>	<b>149,583,371</b>	<b>132,652,240</b>

The Cost of Sales was structured as follows:

**COST OF SALES**

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Raw materials	92,224,212	80,971,638
Consumables expenses	3,290,012	2,282,826
Packages expenses	8,572	25,084
Energy, water and gas	2,240,857	2,738,384
Repairs	11,746	3,340
Staff costs	18,150,934	17,894,202
Depreciation and amortization related to non-current assets	3,691,224	3,878,477
Others	17,555	20,488
Third party services	4,162,514	3,437,757
Cost of sold goods	(7,824)	-
Transportation expenses	817,664	549,342
Telecommunication expenses	54,000	43,916
Rent	85,591	59,927

S.C. ELECTROPUTERE S.A.  
 REPORT ON FINANCIAL STATEMENTS  
 AT DECEMBER 31<sup>st</sup> 2015  
 (all the amounts are considered in Ron, unless otherwise specified)

Environmental expenses	89,928	30,473
<b>Total</b>	<b>124,836,985</b>	<b>111,935,854</b>

## 5. INFORMATION ON COMPANY ASSETS AND LIABILITIES

See below the balance sheet on Dec. 31, 2015 compared to Dec. 31, 2014 and to Dec. 31, 2013 (values are in lei):

<b>ASSETS</b>	<b>31 dec.2015</b>	<b>31 dec.2014</b>	<b>31 dec.2013</b>
<b>Non-current assets</b>			
Property, plant and equipment	261,729,820	265,912,782	270,701,574
Intangible assets	1,699,094	1,364,984	1,392,823
Other assets	1,381,635	510,469	286,209
<b>Total non-current assets</b>	<b>264,810,549</b>	<b>267,788,235</b>	<b>272,380,606</b>
<b>Current assets</b>			
Inventories	15,094,781	12,305,924	16,045,843
Trade and other receivables	83,024,980	67,437,373	73,353,461
Other assets	9,251,814	10,815,328	7,992,229
Cash and cash equivalents	2,869,571	3,201,052	2,236,108
<b>Total current assets</b>	<b>110,241,146</b>	<b>93,759,677</b>	<b>99,627,641</b>
<b>Total assets</b>	<b>375,051,695</b>	<b>361,547,912</b>	<b>372,008,247</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Issued capital	103,760,291	1,055,987,861	985,987,861
Reserves	73,756,118	73,756,118	73,756,117
Retained earnings	(250,960,703)	(1,179,565,013)	(1,143,586,931)
<b>Total equity</b>	<b>(73,444,294)</b>	<b>(49,821,034)</b>	<b>(83,842,953)</b>
<b>Non-current liabilities</b>			
Borrowings	202,875,394	200,974,208	261,804,969
Other non-current liabilities	143,177	71,089	118,130
<b>Total non-current liabilities</b>	<b>203,018,571</b>	<b>201,045,297</b>	<b>261,923,099</b>
<b>Current liabilities</b>			
Trade and other payables	73,667,589	49,993,228	60,450,422

S.C. ELECTROPUTERE S.A.  
REPORT ON FINANCIAL STATEMENTS  
AT DECEMBER 31<sup>st</sup> 2015

(all the amounts are considered in Ron, unless otherwise specified)

Borrowings	160,367,430	151,368,219	122,691,207
Provisions	8,773,459	6,167,873	7,502,525
Short term finance lease and other interest bearing obligations	-	-	92,959
Other current liabilities	2,668,940	2,794,329	3,190,988
<b><u>Total current liabilities</u></b>	<b><u>245,477,418</u></b>	<b><u>210,323,649</u></b>	<b><u>193,928,101</u></b>
<b><u>Total liabilities</u></b>	<b><u>448,495,989</u></b>	<b><u>411,368,946</u></b>	<b><u>455,851,200</u></b>
<b><u>Total equity and liabilities</u></b>	<b><u>375,051,695</u></b>	<b><u>361,547,912</u></b>	<b><u>372,008,247</u></b>

Total stocks increased by 2,788 thousand lei, which is 22.66 %. The stocks structure is as follows:

	<u>31 dec.2015</u>	<u>31 dec.2014</u>	<u>31 dec.2013</u>
Raw materials	13,141,512	12,404,350	11,324,626
Consumables	315,923	435,280	570,994
Materials in the form of inventory items	830,937	1,071,394	780,909
Packaging	528,006	182,326	85,174
Finished goods	2,418,685	2,535,872	1,510,662
Work in progress	3,157,769	2,242,254	7,664,842
Semi-finished goods	1,273,135	1,228,358	1,202,604
Residual products	17,194	25,430	45,061
Goods	47,369	-	-
Allowance for impairment of inventories	(6,635,749)	(7,819,340)	(7,139,029)
<b>Total</b>	<b><u>15,094,781</u></b>	<b><u>12,305,924</u></b>	<b><u>16,045,843</u></b>

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

	<u>31 Dec, 2015</u>	<u>31 Dec, 2014</u>	<u>31 Dec, 2013</u>
Balance at the beginning of the year	7,819,340	7,139,029	8,540,209
(Release)/Charge in the current year	(1,183,591)	680,311	(1,401,181)
<b>Balance at the end of the year</b>	<b>6,635,749</b>	<b>7,819,340</b>	<b>7,139,029</b>

Total receivables increased by 15,587 thousand lei, respectively with 23.11%, as compared to 2014.

	<u>31 Dec. 2015</u>	<u>31 Dec. 2014</u>	<u>31 Dec. 2013</u>
Trade receivables	84,841,064	42,591,878	25,338,349
Trade receivables recognized under IAS 11	4,317,709	25,248,136	49,522,197



S.C. ELECTROPUTERE S.A.  
REPORT ON FINANCIAL STATEMENTS  
AT DECEMBER 31<sup>st</sup> 2015

(all the amounts are considered in Ron, unless otherwise specified)

Allowance for doubtful receivables	(6,492,662)	(521,762)	(2,245,145)
Advances paid for inventory	337,525	101,095	719,235
Advances paid for services	21,344	18,026	18,825
<b>Total</b>	<b>83,024,980</b>	<b>67,437,373</b>	<b>73,353,461</b>

Movement in allowance for trade receivables is as follows:

	<u>31 Dec. 2015</u>	<u>31 Dec. 2014</u>	<u>31 Dec. 2013</u>
Balance at the beginning of the year	521,762	2,245,145	4,263,308
Charge/(Release) in the current year	5,970,900	(1,723,383)	(2,018,163)
<b>Balance at the end of the year</b>	<b><u>6,492,662</u></b>	<b><u>521,762</u></b>	<b><u>2,245,145</u></b>

Total debts went up 9.03%. Since privatization and till the end of 2015, the Company has been permanently financially assisted by the majority shareholder.

On Dec. 31, 2015, the Company registered total debts of 448,495,989 lei, as follows:

	December 31, 2015 RON	December 31, 2014 RON
<b>Non-current liabilities</b>		
Borrowings	202,875,394	200,974,208
Other non-current liabilities	143,177	71,089
<b>Total non-current liabilities</b>	<b>203,018,571</b>	<b>201,045,297</b>
<b>Current liabilities</b>		
Trade and other payables	73,373,375	49,993,228
Borrowings	160,367,430	151,368,219
Provisions	8,773,459	6,167,873
Short term finance lease and other interest bearing obligations	-	-
Other current liabilities	2,668,940	2,794,329
<b>Total current liabilities</b>	<b>245,477,418</b>	<b>210,323,649</b>
<b>Total liabilities</b>	<b>448,495,989</b>	<b>411,368,946</b>
<b>Total equity and liabilities</b>	<b>375,051,695</b>	<b>361,547,912</b>

## 6. SIGNIFICANT EVENTS DURING 2015

S.C. ELECTROPUTERE S.A.  
REPORT ON FINANCIAL STATEMENTS  
AT DECEMBER 31<sup>st</sup> 2015

(all the amounts are considered in Ron, unless otherwise specified)

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In 2015, Electroputere has enhanced its overseas market especially in KSA where over 50% of sales was made to this market. EP has also started Authorization process for Motor Division Relocation which will enable better control of working environment. Building up sales in 2015 was a challenge though with the ongoing restructuring; sales came late in the first half of the year and a gap of turnover was caused mainly in Q3.

Despite lower sales, EP have decided to keep its competent personnel in key technical positions as part of EP's CSR to the working force of Craiova, and in order to be ready for sales surge in 2016 and beyond.

## **7. RISK MANAGEMENT**

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

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

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

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

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

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

### **c. Credit Risk**

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

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

### **d. Liquidity Risk**

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

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

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

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

- The fair value of the assets and financial debts with standard terms and 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.

#### **8. OTHER TECHNICAL AND ORGANIZATIONAL ACTIONS TAKEN IN ORDER TO STREAMLINE THE COMPANY IN 2015**

- Optimize production flow;
- Improve working conditions in terms of immediate environment and labor protection;
- Improve the management system by changing the decision-making system;
- Improve the quality assurance system;
- Reorganize the existing processes.

#### **9. BOOK LOSS COVERAGE**

On Dec. 31, 2015, the Company registered an accumulated loss of 250,960,703 RON, negative net assets in the amount of RON 73,444,294, net current liabilities in amount of RON 135,236,272 and the loss for the year then ended amounts to RON 23,623,260.

#### **10) CORPORATE GOVERNANCE**

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

As of 31 December 2015, Electroputere SA Board of Directors consists of 5 members (one position is currently vacant) and majority of its members are non-executive directors. Provisions for managing

S.C. ELECTROPUTERE S.A.  
REPORT ON FINANCIAL STATEMENTS  
AT DECEMBER 31<sup>st</sup> 2015  
(all the amounts are considered in Ron, unless otherwise specified)

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conflicts of interest are specified in the mandate agreement concluded between the Company and directors.

As of 31.12.2015, the Company has complied partially with the obligation to set up an Investor Relations department - indicating to the general public the person / persons or organizational unit responsible, meaning that this service is under the responsibility of the Company's Legal Department. The Company has included on its website a section dedicated to investor relations in Romanian and English, with relevant information of interest to investors, namely the General Meetings of Shareholders, Financial Reports, Corporate Governance, periodic reporting, Current News Releases. As of 31.12.2015, the Company's articles of association are included on the Company's website. Regarding procedures for shareholders' meetings, they are described in detail for each general meeting and the assembly notices of the general meetings of shareholders are posted in the General Meetings of Shareholders section. Professional CVs of the members of the management bodies of the Company and other professional commitments of Board members are not yet posted on the Internet.

As of 31.12.2015, the Company included on its website current and periodic reports (quarterly and annual) and the financial statements and auditors' reports.

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

In fiscal year 2015, the Company has not organized meetings/conference calls with analysts and investors.

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

- the discharge of the Board of Directors for the financial year 2015;
- report of the financial auditor on the financial statements of Electroputere S.A., for 2015;
- the separate financial statements of the Company prepared for the financial year 2015;

  
CHAIRMAN OF THE BOARD OF DIRECTORS  
AHMED IBRAHIM AL BASSAM