



To,
Bucharest Stock Exchange
Financial Supervisory Authority

NOTICE

According to art. 113, letter C from CNVM Regulation no. 1/2006, regarding the issuers and operations with securities, S.C. Electroputere S.A. Craiova informs the shareholders and investors that the Report for the 1st quarter of 2017 concluded on May 15, 2017 will be available on the company website (www.electroputere.ro) since 18³⁰ May 15, 2017

It will be issued according to CNVM Regulation no. 1/2006.

The financial statements on March 31, 2017 have not been audited yet.

The requests for a written copy of it can be submitted to the company registered office from Craiova, 80 Calea București Street, or at the telephone number 0372.703.450.

President,
Osama Al Halabi



Electroputere

STATEMENT OF RESPONSIBILITY
as per art.30 from the Accounting Law no.82/1991
and CNVM Regulation no. 1/2006 art. 1121, par. 1, letter C

The financial statements for the 1st quarter of 2017 have been drawn up for:

Entity: S.C. ELECTROPUTERE S.A.

Headquarters: CRAIOVA, 80 Calea Bucuresti Street, Dolj County

Unique Identification Number at the Trade Register Office: 6312800

Registration no. in the Trade Register: J 16/12/1991

Subscribed and paid up capital: 103.760.291,30 lei

Regulated market where issued securities are traded: Bucharest Stock Exchange – 2nd Category

The undersigned OSAMA AL HALABI, as President and member of the company Board of Directors, and BOGDAN PARASCHIV as CFO, assume the responsibility for the financial statements for the 1st quarter of 2017 and acknowledge that:

- the accounting policies used when drawing up the quarterly financial statements are in compliance with the applicable accounting regulations;
- the quarterly financial situations are a trustworthy reflection of the financial status and of the information related to the activity developed;
- the legal entity is running the activity uninterruptedly.

The financial statements on March. 31, 2017 have not been audited yet.

PRESIDENT

OSAMA AL HALABI

CFO

BOGDAN PARASCHIV

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www.electroputere.ro

Registrations: J 16/12/1991
CUI: 6312800
TVA/VAT: RO6312800
Share capital: 103.760.291 LEI

Bank accounts:
Blom Bank France SA Paris - Romania Branch
Acc. RO43BLOM6304912946260014/RON
Acc. RO62BLOM6304912840260012/USD
Acc. RO38BLOM6304912978260016/EUR

Quarterly Report as of March 31, 2017
under Regulation C.N.V.M. / A.S.F. no. 1/2006

S.C. ELECTROPUTERE S.A. is an entity set up under the Romanian law. The Entity was initially established in 1949, having its main business purpose the manufacturing of electro technical equipment of high currents for energy sector and railway transport, and initially structured in four main production sectors: rotate 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, Bucharest Street, no 80.

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

As of March 31, 2017 the Entity registered total income in amount of 22,908,000 RON, from which 16,941,280 RON Power Transformers BU, 5,781,180 RON Rotate Electrical Engines BU and 185,540 RON Others, representing 96% from the incomes booked in the same period of the last year, and a loss of (11,076,662) RON vs. the first three months of 2016 in amount of (7,127,149) RON.

Fixed assets as of March 31, 2017 are in amount of 256,549,814 RON, current assets 101,396,021 RON, cumulated losses 307,384,122 RON, negative equity 129,867,713 RON, current debts 284,012,308 RON (from which: 99,122,766 RON amounts related to shareholders, 79,782,699 RON debts to the bank), net current liabilities in amount of 182.616.287 RON.

We mention that the financial statements as of March 31, 2017 are not audited by the external financial auditor of the Company.

The signed financial statements as of March 31, 2017 are available on the Company's website, www.electroputere.ro starting with May 15, 2017, 18:30.

OSAMA M.T. AL-HALABI – President

BOGDAN PARASCHIV – CFO



Translation from Romanian

Report 1st QUATER of 2017 according to Regulation no. 1/2006

Reporting date: May. 15, 2016

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: 103.760.291,30

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. Economical and financial indicators:

Indicator	Calculation method	Result
Current liquidity ratio	Current assets/ debts	0.36
Indebtedness indicator	Loan capital / Equity *100 Loan capital / Capital employed *100	-
Rate of debit turnover - customers	Average balance client / Turnover*90	310 days
Rate of fixed assets turnover	Turnover / Fixed assets	0.09

3. Economical and financial situation and analysis of S.C. Electroputere S.A. activity on March. 31, 2017.

Synthetic comparative situation (1st quarter, 2016 – 1st quarter, 2017) are presented as follow:

S.C. ELECTROPUTERE S.A.

**FINANCIAL STATEMENTS
AS OF MARCH 31, 2017**

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

CONTENT:**PAGE:**

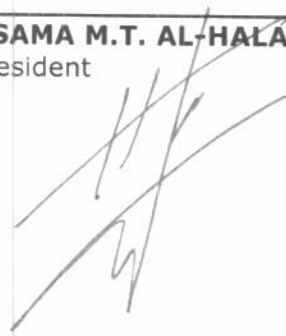
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	3
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF CASH FLOW	5 – 6
STATEMENT OF CHANGES IN EQUITY	7 – 8
ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	9 – 47

S.C. ELECTROPUTERE S.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
AS OF MARCH 31, 2017

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

	Note	march 31, 2017	march 31, 2016
		unaudited	unaudited
Revenue	4	22,908,000	23,895,299
Cost of sales	5	(23,085,024)	(24,627,381)
Gross profit / (loss)		(177.024)	(732.082)
Administrative expenses	9	(5,434,125)	(5,223,457)
Other operating expenses	7	139,472	185,020
Distribution expenses		(338,622)	(1,215,371)
Other gains or (losses)	6	(699,468)	4,329,692
Finance costs	8	(4,566,975)	(4,471,069)
Finance income	8	80	118
Loss before tax		(11,076,662)	(7,127,149)
Income tax credit	10	-	-
Loss for the year		(11,076,662)	(7,127,149)
Other comprehensive income, net of tax:			
Gain on revaluation of properties		-	-
Total comprehensive income		(11,076,662)	(7,127,149)
Earnings per share	27	(0.001)	(0.007)

OSAMA M.T. AL-HALABI
 President



BOGDAN PARASCHIV
 CFO



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

S.C. ELECTROPUTERE S.A.
STATEMENT OF FINANCIAL POSITION
AS OF MARCH 31, 2017

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

	Note	March 31, 2017 unaudited	December 31, 2016 audited
ASSETS			
Non-current assets			
Property, plant and equipment	11	255,071,493	256,454,493
Intangible assets	12	1,132,732	1,249,389
Other assets	13	345,589	345,589
Total non-current assets		256,549,814	258,049,471
Current assets			
Inventories	14	7,767,843	9,842,663
Trade and other receivables	15	78,853,104	106,622,235
Other assets	13	14,276,770	13,471,703
Cash and cash equivalents	16	498,304	1,462,066
Total current assets		101,396,021	131,398,667
Total assets		357,945,835	389,448,138
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	17	103,760,291	103,760,291
Reserves	18	73,756,118	73,756,118
Accumulated deficit		(307,384,122)	(296,307,460)
Total equity		(129,867,713)	(118,791,051)
Non-current liabilities			
Borrowings	19	203,776,664	203,619,726
Other non-current liabilities		24,576	24,576
Total non-current liabilities		203,801,240	203,644,302
Current liabilities			
Trade and other payables	21	86,047,226	91,537,124
Borrowings	19	178,905,464	195,418,558
Provisions	20	13,395,225	13,459,020
Short term finance lease and other interest bearing obligations	23	-	-
Other current liabilities	22	5,664,393	4,180,185
Total current liabilities		284,012,308	304,594,887
Total liabilities		487,813,548	508,239,189
Total equity and liabilities		357,945,835	389,448,138

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 President

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**S.C. ELECTROPUTERE S.A.
STATEMENT OF CASH FLOW
AS OF MARCH 31, 2017**

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

	march 31, 2017	march 31, 2016
Cash flow from operating activities:		
	unaudited	unaudited
Net loss	(11,076,662)	(7,127,149)
<i>Adjustments</i>		
Depreciation and amortization of non-current assets	1,526,211	1,534,827
Reversal of provisions for doubtful accounts receivable	(168,451)	(17,660)
Provisions for non-current assets	1,493	3,238
Charges to / (Reversal of) provisions for slow moving and obsolete inventories	687,583	1,497,751
(Reversal of) / Charges to provisions for risks and charges	(63,795)	(128,060)
Provisions for penalties and interests for VAT		
Net gain/(loss) from sale/write off of fixed assets		
Net interest expenses	4,566,895	4,470,951
Fixed assets from own production		(84,728)
Unrealized forex (gain) / loss differences	248,058	(3,200,078)
Loss on revaluation of land		
Movements in working capital:		
(Increase) / Decrease in trade and other receivables	26,117,512	(13,371,725)
Decrease / (Increase) in inventories	1,387,237	7,236,660
Decrease / (Increase) of good execution guarantees granted to customers	-	223,828
Decrease / (Increase) in prepaid expenses	(2,917,535)	(3,310,376)
Increase in trade and other payables	26,117,512	(13,371,725)
Cash (used in) / generated by operations	20,308,546	(12,272,521)
Interest paid	(1,121,916)	(1,094,421)
Interest received	80	118
Cash flows (used in) / generated by operating activities	19,186,710	(13,366,823)
Cash flow from investing activities:		
Payments for acquisitions of property, plant and equipment and intangible assets	(101,199)	(8,668)
Proceeds from disposals of property, plant and equipment	-	-
Cash flows (used in) investing activities	(101,199)	(8,668)

The notes attached are an integral part of these financial statements.
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**S.C. ELECTROPUTERE S.A.
STATEMENT OF CASH FLOW
AS OF MARCH 31, 2017**

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

	march 31, 2017	march 31, 2016
Cash flow from financing activities:	unaudited	unaudited
Increase / (Decrease) in loans from financial institutions	(20,049,273)	11,465,660
Payments for leasing	-	-
Cash generated by / (used in) financing activities	(20,049,273)	11,465,660
Net (decrease) in cash and cash equivalents	(963,762)	(1,909,831)
Cash and cash equivalents at the beginning of the year	1,462,066	2,869,571
Cash and cash equivalents at the end of the year	498,304	959,740

OSAMA M.T. AL-HALABI
President



BOGDAN PARASCHIV
CFO



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

S.C. ELECTROPUTERE S.A.
STATEMENT OF CHANGES IN EQUITY
AS OF MARCH 31, 2017

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

	Share capital	Other reserves	Revaluation reserves	Accumulated deficit from the transition to IFRS	Accumulated deficit	Total
Balance at January 1, 2016	103,760,291	60,918,636	12,837,482	377,386,808	(628,347,511)	(73,444,294)
Loss for the year	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(45,346,757)	(45,346,757)
Elimination of share capital inflation adjustment	-	-	-	-	-	-
Balance at December 31, 2016	103,760,291	60,918,636	12,837,482	377,386,808	(673,694,268)	(118,791,051)

OSAMA M.T. AL-HALABI
 President



BOGDAN PARASCHIV
 CFO



S.C. ELECTROPUTERE S.A.
STATEMENT OF CHANGES IN EQUITY
AS OF MARCH 31, 2017

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

	Share capital	Other reserves	Revaluation reserves	Accumulated deficit from the transition to IFRS	Accumulated deficit	Total
Balance at January 1, 2017	103,760,291	60,918,636	12,837,482	377,386,808	(673,694,268)	(118,791,051)
Loss for the year	-	-	-	-	(11,076,662)	(11,076,662)
Other comprehensive income	-	-	-	-	-	-
Elimination of share capital inflation adjustment	-	-	-	-	-	-
Balance at March 31, 2017	103,760,291	60,918,636	12,837,481	377,386,808	(684,770,930)	(129,867,713)

OSAMA M.T. AL-HALABI
 President

BOGDAN PARASCHIV
 CFO

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

1. GENERAL INFORMATION

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

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

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

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

During 2016 approximately 76% (2015: 81%) of sales went to export. Electroputere S.A. is listed on Bucharest Stock Exchange, having the symbol „EPT”. Its prices per share could be analyzed as follows:

	<u>2017</u>	<u>2016</u>
Minimum price	0.0336	0.0340
Maximum price	0.0336	0.0340
Average price	0.0336	0.0340

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

	<u>2017</u>	<u>2016</u>
Average number of employees	748	754

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

a) Standards and Interpretations effective in the current period

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

- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

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

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

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

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

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

- IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).
- IFRS 9 includes requirements for financial instruments regarding recognition, classification and measurement, impairment, derecognition and general hedge accounting:
- *Classification and measurement:* IFRS 9 introduces new approach for the classification of financial assets; it contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. IFRS 9 classification is generally based on the business model in which a financial asset is managed and on its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. The new model also results in a single impairment model being applied to all financial instruments.
- *Impairment:* IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.
- *Hedge accounting:* IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.
- *Own credit risk:* IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

The Company has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

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

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at the approval of these financial statements:

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019), endorsement expected in the second half of 2017,
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018), endorsement expected in the second half of 2017,
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time), endorsement expected in 2017,
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018), endorsement expected in the second quarter of 2017,
- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017), endorsement expected in the second quarter of 2017,
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017), endorsement expected in the second quarter of 2017,
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018), endorsement expected in the second half of 2017,
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018), endorsement expected in the second half of 2017,
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018), endorsement expected in the second half of 2017.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (EU), as provided for by the Public Finance Minister no 2844/2016 and its subsequent amendments.

Basis of preparation

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

The principal accounting policies are set out below:

Going concern

The financial statements have been prepared on a going concern basis, under the historical cost convention adjusted for the effects of hyperinflation until 31 december 2003 for share capital and reserves, respectively equipments.

As at March 31, 2017, the Company recorded an accumulated loss in the amount of RON 307.384.122, negative net assets in the amount of RON 129.867.713, net current liabilities in amount of RON 182.616.287 and the loss for the year then ended amounts to RON 11.076.662. 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.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)

Management believes that it is unlikely that the Company will be subject to dissolution procedures in the foreseeable future. As a result, the Company's capacity to continue as a going concern depends on its ability to generate sufficient future income and on the financial support from its shareholders. Management believes that such a support will be available whenever necessary. These financial statements do not include adjustments that might arise from this uncertainty regarding the ability of the Company to continue as a going concern.

The principal accounting policies are presented below:

Revenue recognition

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

Sale of goods

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

- The Entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that economic benefits associated with the transaction will flow to the Entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Rendering of services

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

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income

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

Construction contracts (transformers factory)

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

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

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

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

Leasing

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

The Entity's as lessor

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

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Entity as lessee

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

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

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

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

Foreign currencies

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

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

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

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

- March 31st, 2017: 4,2325 RON/USD si 4.5446 RON/EUR
- December 31st, 2016: 4.3033 RON/USD and 4.5411 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.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

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

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

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

Current and deferred tax for the year

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

Statutory income tax rate for the year ended December 31, 2016 was 16% (December 31, 2015: 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.

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.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Cost (continued)

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

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

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

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

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

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.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation and amortization (continued)

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;
- 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.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Internally-generated intangible assets - research and development expenditure

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

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

Derecognition of intangible assets

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Inventories

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

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

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

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

Provisions

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

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

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

Onerous contracts

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Restructuring

A restructuring provision is recognized when the Entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

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

Financial instruments

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

Financial assets

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

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.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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.

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.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments (continued)

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments (continued)

Other financial liabilities

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

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

Derecognition of financial liabilities

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

Related parties

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

Operating segments

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

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

Use of estimates

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

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates (continued)

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.

iii) Restructuring provisions

iv) Deferred taxes

v) Provisions and contingent liabilities

vi) Allowances for bad and doubtful customers

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

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

4. REVENUES

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

	March 31, 2017	March 31, 2016
	unaudited	unaudited
Revenues from sales of goods	22,644,250	23,270,946
Revenue from commodities	-	391,770
Revenue from rendering of services	29,990	23,973
Other revenues	233,760	208,610
Total	22,908,000	23,895,299

5. COST OF SALES

	March 31, 2017	March 31, 2016
	unaudited	unaudited
Raw materials	14,843,444	15,251,910
Consumables expenses	603,572	992,185
Packages expenses	1,267	3,811
Energy, water and gas	956,794	949,621
Repairs	11	634
Staff costs	4,845,800	5,249,136
Depreciation and amortization related to non-current assets	926,671	1,026,390
Others	7,441	97,631
Third party services	571,737	778,100
Cost of goods sold	-	230,013
Transportation expenses	214,800	14,895
Telecommunication expenses	20,440	24,920
Rent	8,296	8,135
Environmental expenses	84,751	15,251,910
Total	23,085,024	24,627,381

6. OTHER GAINS AND LOSSES

	March 31, 2017	March 31, 2016
	unaudited	unaudited
Income from sale of fixed assets	-	-
Expenses with disposal of property, plant and equipment	-	-
Income / (Expense) net of exchange differences	(699,468)	4,329,692
Total	(699,468)	4,329,692

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

7. OTHER OPERATING EXPENSES

	March 31, 2017	March 31, 2016
	<u>unaudited</u>	<u>unaudited</u>
Other income	152,429	266,039
(Expenses with) / Reversal of provisions for current assets		132,127
(Expenses with) provisions for risks and charges	63,795	
Travel expenses, and transfer postings	(76,752)	(213,146)
Other expenses		
Total	<u>139,472</u>	<u>185,020</u>

8. FINANCE COSTS, NET

	March 31, 2017	March 31, 2016
	<u>unaudited</u>	<u>unaudited</u>
Interest income	(80)	(118)
Interest expense from loans and leasing	4,566,975	4,471,069
Total	<u>4,566,895</u>	<u>4,470,951</u>

9. ADMINISTRATIVE EXPENSES

	March 31, 2017	March 31, 2016
	<u>unaudited</u>	<u>unaudited</u>
Energy, water and gas	186,004	188,358
Repairs expenses	13,353	-
Insurance premiums	45,636	26,549
Staff costs	2,306,766	2,310,832
Fees and charges	3,900	3,834
Entertainment, promotion and advertising	202	25,056
Other third party services	1,045,730	751,707
Other taxes, charges and similar expenses	343,663	367,416
Consumables expenses	149,302	213,810
Bank charges	676,860	279,499
Merchandise expenses	-	373,937
Rent expenses	53,173	108,379
Depreciation expense	609,536	574,080
Total	<u>5,434,125</u>	<u>5,223,457</u>

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

10. INCOME TAX

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

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
	<u>unaudited</u>	<u>unaudited</u>
Current tax		
Current income tax expense	-	-
Deferred tax (income)	-	-

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

10. PROPERTY, PLANT AND EQUIPMENT

COST	Land	Buildings and other constructions	Plant and machinery	Equipment and vehicles	Advances for fixed assets and capital work in progress	Total
December 31, 2016	198.433.580	65.166.359	243.535.865	107.291.882	4.330.902	618.758.588
Additions	-	-	-	-	26,555	26,555
Transfers	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
March 31, 2017	198.433.580	65.166.359	243.535.865	107.291.882	4,357,457	618,785,143
ACCUMULATED DEPRECIATION						
December 31, 2016	2.892	12.796.501	238.545.251	107.253.637	-	358.958.281
Depreciation expense	8,677	1,073,972	323,663	3,242	-	1,409,553
Eliminated on disposals of assets	-	-	-	-	-	-
March 31, 2017	11,569	13,870,473	238,868,914	107,256,879	-	360,007,835

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings and other constructions	Plant and machinery	Equipment and vehicles	Advances for fixed assets	Total
IMPAIRMENT ALLOWANCE						
December 31 2016	-	-	-	-	(3,705,815)	(3,705,815)
Impairment losses recognized in profit or loss account	-	-	-	-	-	-
March 31 2017	-	-	-	-	(3,705,815)	(3,705,815)
NET BOOK VALUE						
December 31 2016	198.430.688	52.369.858	4.990.614	38.245	8.036.717	256.454.493
March 31 2017	198,422,011	51,295,886	4,666,951	35,003	8,063,272	255,071,493

Advances granted for tangible assets included an amount of RON 3,602,600 as at December 31, 2014 paid in 2008 to Mija Industrial Park S.A., an affiliated entity, under contract execution of construction works consisting of refurbishment of office building with a ground area of 820 sqm, and a built area of 3,280 sqm, owned by the Company. The entire value has been provided for as at December 31, 2015 and December 31, 2016.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

1. Pledged property, plant and equipment

As at March 31, 2017 the net book value of the property, plant and equipment pledged in favour of banks, with regard to the loans of the Entity, is of RON 250.456.369 (December 31, 2016: RON 250.456.369).

2. Property, plant and equipment purchased under finance lease

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

12. INTANGIBLE ASSETS

	<u>Development expenses</u>	<u>Other intangibles</u>	<u>Advances for intangibles</u>	<u>Total</u>
COST				
December 31, 2016	217.867	2.331.020	146.569	2.695.456
Additions				
Disposals				
March 31, 2017	217.867	2.331.020	146.569	2.695.456
ACCUMULATED AMORTISATION				
December 31, 2016	(217.867)	(1.228.200)	-	(1.446.067)
Amortisation expense		116,657		116,657
Eliminated on disposal of assets				
March 31, 2017	(217.867)	(1,344,857)	-	(1,562,724)
IMPAIRMENT ALLOWANCE				
December 31, 2016	-	-	-	-
Impairment losses of intangible assets in progress				
March 31, 2017	-	-	-	-
December 31, 2016	-	1.102.820	146.569	1.249.389
March 31, 2017	-	986,163	146,569	1,132,732

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

13. OTHER ASSETS

	March 31, 2017	December 31, 2016
	unaudited	audited
Guarantees on long-term	345,589	345,589
Commercial guarantees to be received	2,886,847	2,822,899
Provisions for guarantees	(548,777)	(547,284)
Other investments	1,818	1,818
Sundry debtors	1,013,510	515,577
Advance payments	476,358	-
VAT receivable	14,152,090	14,383,769
Less: Allowance for doubtful VAT receivable	(3,705,076)	(3,705,076)
Total	14,622,359	13,817,292

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

	March 31, 2017	December 31, 2016
	unaudited	audited
Guarantees on long-term	345.589	345.589
Other current assets	14.276.770	13.471.703
Total	14,622,359	13.817.292

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

14. INVENTORIES

	March 31, 2017	December 31, 2016
	unaudited	audited
Raw materials	9,329,211	10,106,795
Consumables	264,428	279,449
Materials in the form of inventory items	1,140,781	1,062,506
Packaging	198,679	251,865
Finished goods	4,342,116	2,733,219
Work in progress	524,959	2,750,304
Semi-finished goods	1,262,183	1,265,456
Residual products	7,532	7,532
Goods	47,369	47,369
Allowance for impairment of inventories	(9,349,415)	(8,661,832)
Total	7.767.843	9,842,663

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

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

	March 31, 2017	December 31, 2016
	unaudited	audited
Balance at the beginning of the year	8,661,832	6,635,749
Charge / (Release) in the current year	687,583	2,026,083
Balance at the end of the year	9,349,415	8,661,832

15. TRADE AND OTHER RECEIVABLES

	March 31, 2017	December 31, 2016
	unaudited	audited
Trade receivables	51,741,744	91,400,467
Trade receivables recognised under IAS 11	33,556,029	22,165,130
Allowance for doubtful receivables	(6,917,314)	(7,085,765)
Advances paid for inventories	426,254	120,935
Advances paid for services	46,391	21,468
Total	78,853,104	106,622,235

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

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

15. TRADE AND OTHER RECEIVABLES

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

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

Aging of receivables that are older than 60 days:

	March 31, 2017	December 31, 2016
	unaudited	audited
60-90 days	3,012,906	12,838,021
90-120 days	17,670,927	14,996,147
Over 120 days	18,538,855	6,300,329
Total	39,222,688	34,134,497

Movement in allowance for trade receivables is as follows:

	March 31, 2017	December 31, 2016
	unaudited	audited
Balance at the beginning of the year	7,085,765	6,492,662
Release in the current year	(168,451)	593,103
Balance at the end of the year	6,917,314	7,085,765

Aging of receivables past due and impaired:

	March 31, 2017	December 31, 2016
	unaudited	audited
Over 120 days	2,969,511	6.300.329
Total	2,969,511	6.300.329

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

16. CASH AND CASH EQUIVALENTS

	March 31, 2017	December 31, 2016
	unaudited	audited
Bank accounts	459,791	1,450,328
Other	38,512	11,737
Cash equivalents	1	1
Total	498,304	1,462,066

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

17. ISSUED CAPITAL

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

	No. of shares	Share capital RON
Share capital at December 31, 2016	1,037,602,913	103,760,291
Share capital at March 31, 2017	1,037,602,913	103,760,291
	No of shares	Procent
Shareholder structure December 31, 2016		
Al-Arrab Contracting Company Ltd	991,284,640	95.53%
Other shareholders	46,318,273	4.63%
Total	1,037,603,913	100%
Shareholder structure March 31, 2017		
Al-Arrab Contracting Company Ltd	991,284,640	95.53%
Other shareholders	46,318,273	4.46%
Total	1,037,602,913	100%

During the year ended December 31, 2015 the Company operated a reduction in share capital related to the hyperinflation adjustments recorded at the first time adoption of IFRS. On 28th April 2015 the Shareholders of the Company approved the reversal of the inflation adjustment pertaining to share capital amounting to RON 952,227,570 against the retained earnings.

18. RESERVES

	March 31, 2017	December 31, 2016
	unaudited	audited
Legal reserves	17,784,866	17,784,866
Revaluation reserves	12,837,480	12,837,480
Other	43,133,772	43,133,772
Total	73,756,118	73,756,118

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

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

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

19. BORROWINGS

	March 31, 2017	December 31, 2016
	unaudited	audited
Loans guaranteed		
Short term loans	79,782,698	99,831,972
Current portion of long term loans	99,122,766	95,586,586
Loans guaranteed		
Long term loans	203,776,664	203,619,726
Total	382,682,128	399,038,284

a) Amounts due to credit institutions

The Company contracted a credit facility amounting to 24,800,000 EUR from Blom Bank for the financing of working capital and for the payment of the outstanding debts towards state authorities. The credit facility comprises the following credit limits:

- An overdraft loan of EUR 3,750,000 for the current activity, that can be utilized up until June 30, 2017;
- A revolving facility of EUR 7,000,000 EUR that can be utilized up until June 30, 2017, with an attached interest rate of EURIBOR 1m plus 2.5% per annum, but no lower than 4.75% per annum;
- A revolving facility of EUR 14,050,000 can be utilized up to June 30, 2017.

The above mentioned agreement is pledged with:

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

19. BORROWINGS (continued)

b) Amounts due to shareholders

As at March 31, 2017 the amounts owed to the shareholders, are long-term loans from the main shareholder of the Company, Al-Arrab Contracting Company Ltd, in the amount of EUR 44,839,296 equivalent of RON 203.776.664 (December 31, 2016: RON 203.619.726, equivalent of EUR 44,839,296), granted for financing of working capital, environment and development investments, according to the obligations assumed under the privatization agreement no. 67/30.10.2007.

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

Interest payable at March 31, 2017 on loans from shareholders amounts to RON 99,122,766, equivalent of EUR 21,811,109 (31 December 2015: RON 95,586,586, equivalent of 21,049,214 EUR), calculated at rates ranging between 0% and 6.5% per year.

The interest expense related to the shareholders loan for the March 31, 2017 is in amount of RON 3.445.059 (for the year ended December 31, 2016: RON 14.152.719).

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

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

20. PROVISIONS

	March 31, 2017	December 31, 2016
	unaudited	audited
Provisions for guarantees to customers	3.946.501	3,946,501
Provisions for restructuring	-	63,795
Provisions for onerous contracts	1.171.931	1,171,931
Provisions for penalties and interest related to the VAT reimbursement control (Note 14)	4.248.418	4,248,418
Provision for environmental liabilities	-	-
Other provisions (*)	4.028.375	4,028,375
Total	13.395.225	13,459,020

(*) Included in the other provision category as at March 31, 2017 is the amount of RON 3,681,433 related to penalties for late delivery (December 31, 2016: RON 3,681,433).

21. TRADE AND OTHER PAYABLES

	March 31, 2017	December 31, 2016
	unaudited	audited
Trade payables	20,536,429	23.464.444
Invoices to be received	1,232,160	637.743
Advances from customers	12,751,800	13.841.439
Sundry creditors	156,329	1.293.277
Sundry creditors group related	51,370,508	52.300.221
Total	86,047,226	91.537.124

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

22. OTHER CURRENT LIABILITIES

	March 31, 2017	December 31, 2016
	unaudited	audited
Salaries payable	2,144,824	2.039.480
Social contributions	1,403,404	1.414.243
Other taxes	6,124	50.800
Tax on salaries	481,629	393.687
Other current liabilities	1,628,412	281.975
Total	5,664,393	4.180.185

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

23. FINANCIAL INSTRUMENTS

a) Capital risk management

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

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

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

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

	March 31, 2017	December 31, 2016
	<u>unaudited</u>	<u>audited</u>
Total borrowings	382,682,128	399.038.284
Less: cash and cash equivalents	(498,304)	(1.462.066)
Net debt	<u>382.183.824</u>	<u>397.576.218</u>
Total capital and reserves	(129,867,713)	(118.791.051)
Gearing ratio	n/a	n/a

b) Interest rate risk management

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

Interest rate sensitivity

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

23. FINANCIAL INSTRUMENTS (continued)

c) Credit risk management

Interest rate sensitivity (continued)

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

d) Fair value of the financial instruments

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

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

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

e) Foreign currency risk management

The Entity is exposed to foreign exchange rate fluctuations in trade and finance. Currency risk arising from recognized assets and payables including loans denominated in foreign currency. Due to the high costs associated with Company policy is not to use derivative financial instruments to mitigate this risk.

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

e) Foreign currency risk management

Sensitivity analysis to exchange rate variations

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

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

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

f) Liquidity risk management

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

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

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017
(all amounts are expressed in RON, unless otherwise specified)

25. RELATED PARTY TRANSACTIONS

Balances and transactions with related parties are as follows:

	Amounts receivable from Related Parties		Amounts payable to Related Parties	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
	unaudited	audited	unaudited	audited
Al-Arrab Contracting Company Ltd	161,252	9,243,452	302,899,429	299,206,312
Mada Group for Industrial and commercial investment - comercials debts	2,850	2,850	5,099,121	5,095,424
Mabani Steel	-	-	11,031	11,031
Osama Al-Halabi	-	12,099	200,000	1,320,142
MADA GYPSUM COMPANY Ltd.	-	-	443,189	392,664
CLADTECH INTERNATIONAL	-	-	1,421	1,421
AL RAJHI	-	-	45,513,837	45,479,539
Saudi Waterproofing Company	-	-	3,399	3,399
UNIPODS LLC	-	-	98,510	-
Toni Akiki	753	753	-	-
Total	164,855	9,259,154	354,269,937	351,509,932
	Sale of goods and services		Purchase of goods and services	
	3 months 2017	3 months 2016	3 months 2017	3 months 2016
	unaudited	audited	unaudited	audited
Mabani Steel	-	-	-	7562
AL RAJHI	-	-	231,115	-
MADA GYPSUM COMPANY Ltd.	-	-	50,525	71204
UNIPODS LLC	-	-	98,510	-
Mabani Steel	-	-	-	-
Total	-	-	301,682	78,766

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

26. COMMITMENTS AND CONTINGENCIES

Litigations

As at 31 March 2017 the Entity is subject to a number of lawsuits arising in the normal course of business. The Company's management believes that these actions will not have a material adverse effect on economic performance and financial position of the Company.

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

Taxation

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

According to the legislation in force, in 2015, interest and delay penalties were levied for tax payers' failure to pay their tax obligations on time.

As of January 1, 2016 the interest value is 0.02% for each day of delay; the delay penalties are 0.01% for each day of delay.

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

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

Transfer pricing

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

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

26. COMMITMENTS AND CONTINGENCIES (continued)

Environment

The regulations regarding the environment are in a development phase in Romania and the Company did not record any liabilities as at March 31, 2017 and December 31, 2016 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.

27. RESULT PER SHARE

	March 31, 2017 unaudited	December 31, 2016 audited
Loss of the year	(11,076,662)	(45.346.757)
No. of shares	1.037.602.913	1.037.602.913
Earnings per share	(0,01)	(0,04)

28. SUBSEQUENT EVENTS

There were no significant subsequent events, after the balance sheet date.