

S.C. ELECTROPUTERE S.A.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

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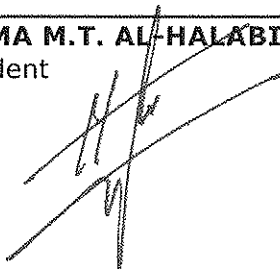
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S.C. ELECTROPUTERE S.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

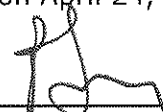
	Not e	Year ended December 31, 2016	Year ended, December 31, 2015
Revenue	4	90,190,306	149,583,371
Cost of sales	5	(83,415,515)	(124,836,985)
Gross profit / (loss)		6,774,791	24,746,386
Administrative expenses	9	(20,819,661)	(19,741,519)
Other operating expenses	7	(8,006,649)	(1,431,583)
Distribution expenses		(2,902,638)	(5,799,429)
Other gains or (losses)	6	(1,405,473)	(4,163,138)
Finance costs	8	(18,993,073)	(17,259,645)
Finance income	8	5,946	25,668
Loss before tax		(45,346,757)	(23,623,260)
Income tax credit	10	-	-
Loss for the year		(45,346,757)	(23,623,260)
Other comprehensive income, net of tax:			
Gain on revaluation of properties		-	-
Total comprehensive income		(45,346,757)	(23,623,260)
Earnings per share	27	(0.04)	(0.02)

These financial statements were authorized for issue by management on April 24, 2017.

OSAMA M.T. AL-HALABI
President



BOGDAN PARASCHIV
CFO



S.C. ELECTROPUTERE S.A.
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>December 31, 2016 RON</u>	<u>December 31, 2015 RON</u>
ASSETS			
Non-current assets			
Property, plant and equipment	11	256,454,493	261,729,820
Intangible assets	12	1,249,389	1,699,094
Other assets	13	345,589	1,381,635
Total non-current assets		258,049,471	264,810,549
Current assets			
Inventories	14	9,842,663	15,094,781
Trade and other receivables	15	106,622,235	83,024,980
Other assets	13	13,471,703	9,251,814
Cash and cash equivalents	16	1,462,066	2,869,571
Total current assets		131,398,667	110,241,146
Total assets		389,448,138	375,051,695
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		(296,307,460)	(250,960,703)
Total equity		(118,791,051)	(73,444,294)
Non-current liabilities			
Borrowings	19	203,619,726	202,875,394
Other non-current liabilities		24,576	143,177
Total non-current liabilities		203,644,302	203,018,571
Current liabilities			
Trade and other payables	21	91,537,124	73,667,589
Borrowings	19	195,418,558	160,367,430
Provisions	20	13,459,020	8,773,459
Short term finance lease and other interest bearing obligations	23	-	-
Other current liabilities	22	4,180,185	2,668,940
Total current liabilities		304,594,887	245,477,418
Total liabilities		508,239,189	448,495,989
Total equity and liabilities		389,448,138	375,051,695

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

S.C. ELECTROPUTERE S.A.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	Year ended as at:	
	December 31, 2016	December 31, 2015
Cash flow from operating activities:		
Net loss	(45,346,757)	(23,623,260)
Adjustments:		
Depreciation and amortization of non-current assets	6,121,798	6,047,818
Expense / (Reversal) of provisions for doubtful accounts receivable	593,103	5,970,900
Reversal of impairment of non current assets	-	27,722
Provisions for other current assets	202,866	(118,495)
Provisions for VAT receivable	-	-
Charges to / (Reversal of) provisions for slow moving and obsolete inventories	2,026,083	(1,183,591)
(Reversal of) / Charges to provisions for risks and charges	4,685,561	2,605,585
Reversal of adjustments for intangible assets	-	(739,088)
Provisions for penalties and interests for VAT	-	-
Net gain / (loss) from sale/write off of fixed assets	-	2,279
Net interest expenses	18,606,345	17,233,977
Unrealized forex (gain) / loss differences	1,638,721	2,766,259
Fixed assets from own production	-	(685,565)
Movements in working capital:		
(Increase) / Decrease in trade and other receivables	(28,609,218)	(19,828,279)
Decrease / (Increase) in inventories	3,226,035	(1,605,266)
Decrease / (Increase) of good execution guarantees granted to customers	917,445	(871,166)
Decrease / (Increase) in prepaid expenses	48,219	(48,219)
Increase in trade and other payables	19,266,061	23,718,216
Cash (used in) / generated by operations	(16,623,738)	9,669,826
Interest paid	(4,897,346)	(4,145,662)
Interest received	-	25,668
Cash flows (used in) / generated by operating activities	(21,521,084)	5,549,832
Cash flow from investing activities:		
Payments for acquisitions of property, plant and equipment and intangible assets	(282,047)	(804,315)
Proceeds from disposals of property, plant and equipment	(52,114)	-
Cash flows (used in) investing activities	(334,161)	(804,315)

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S.C. ELECTROPUTERE S.A.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	<u>Year ended December 31, 2016</u>	<u>Year ended December 31, 2015</u>
Cash flow from financing activities:		
Increase / (Decrease) in loans from financial institutions	20,447,740	(5,076,998)
Payments for leasing	-	-
Cash generated by / (used in) financing activities	<u>20,447,740</u>	<u>(5,076,998)</u>
Net (decrease) in cash and cash equivalents	<u>(1,407,505)</u>	<u>(331,481)</u>
Cash and cash equivalents at the beginning of the year	<u>2,869,571</u>	<u>3,201,052</u>
Cash and cash equivalents at the end of the year	<u>1,462,066</u>	<u>2,869,571</u>

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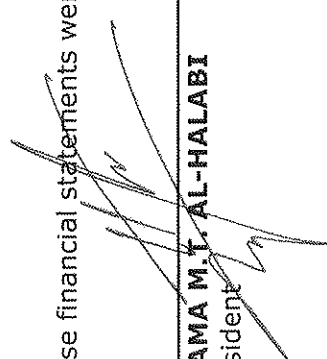



BOGDAN PARASCHIV
CFO

S.C. ELECTROPUTERE S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(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	-	-	-	-	(45,346,757)	(45,346,757)
Other comprehensive income	-	-	-	-	-	-
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)

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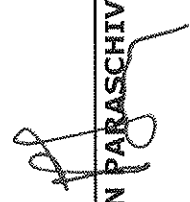
S.C. ELECTROPUTERE S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in RON, unless otherwise specified)

	Share capital	Elements similar to share capital	Other reserves	Revaluation reserves	Accumulated deficit from the transition to IFRS	Accumulated deficit	Total
Balance at January 1, 2015	103,760,291	952,227,570	60,918,636	12,837,481	(574,840,761)	(604,724,251)	(49,821,034)
Loss for the year	-	-	-	-	-	(23,623,260)	(23,623,260)
Other comprehensive income	-	-	-	-	-	-	-
Elimination of share capital inflation adjustment	-	(952,227,570)	-	-	952,227,570	-	-
Balance at December 31, 2015	103,760,291	-	60,918,636	12,837,481	377,386,808	(628,347,511)	(73,444,294)

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.

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OSAMA M. J. AL-HALABI
President


BOGDAN PARASCHIV
CFO

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S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(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 adress 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>2016</u>	<u>2015</u>
Minimum price	0.0340	0.0412
Maximum price	0.0340	0.0412
Average price	0.0340	0.0412

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

	<u>2016</u>	<u>2015</u>
Average number of employees	754	734

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
FOR THE YEAR ENDED DECEMBER 31, 2016
(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
FOR THE YEAR ENDED DECEMBER 31, 2016
(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
FOR THE YEAR ENDED DECEMBER 31, 2016
(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
FOR THE YEAR ENDED DECEMBER 31, 2016
(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 December 31, 2016, the Company recorded an accumulated loss in the amount of RON 250,960,703, negative net assets in the amount of RON 118,791,051, net current liabilities in amount of RON 173,196,220 and the loss for the year then ended amounts to RON 45,346,757. 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
FOR THE YEAR ENDED DECEMBER 31, 2016
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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.

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NOTES TO FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income

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

Construction contracts (transformers factory)

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

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

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

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

Leasing

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

The Entity's as lessor

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

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

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NOTES TO FINANCIAL STATEMENTS
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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.

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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:

- December 31st, 2016: 4.3033 RON/USD and 4.5411 RON/EUR;
- December 31st, 2015: 4.1477 RON/USD and 4.4821 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.

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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.

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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:

	Years
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.

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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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Internally-generated intangible assets - research and development expenditure

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

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

Derecognition of intangible assets

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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4. REVENUES

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Revenues from sales of goods	87,296,326	147,250,291
Revenue from commodities	-	-
Revenue from rendering of services	1,186,266	255,302
Other revenues	<u>1,707,714</u>	<u>2,077,779</u>
Total	<u>90,190,306</u>	<u>149,583,371</u>

	<u>Segment revenue</u>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Domestic sales (Romania)	21,289,898	29,205,010
Sales on foreign markets	<u>68,866,796</u>	<u>120,378,361</u>
Total	<u>90,190,306</u>	<u>149,583,371</u>

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4. REVENUES (continued)

Segmentation revenue and profits

	Segment revenues		Segment (losses)	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Power transformers	75,957,384	130,178,900	(14,613,220)	5,250,640
Electric engines	13,324,454	18,474,739	(6,805,228)	(2,808,811)
Administrative – not allocated	778,618	929,732	(23,928,309)	(26,065,089)
Total from operations	90,190,306	149,583,371	(45,346,220)	(23,623,260)

Segment Assets and Liabilities

	Segment Assets		Segment Liabilities	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Power transformers	186,645,222	174,519,870	238,594,273	199,301,782
Electric engines	42,323,209	44,339,133	56,521,311	40,493,476
Administrative – not allocated	160,479,707	156,192,692	213,123,605	208,700,731
Total Assets/ Liabilities	389,448,138	375,051,695	508,239,189	448,495,989

Information by geographic area

	Income by geographic area	
	December 31, 2016	December 31, 2015
Greece	6,622,156	34,512,133
KSA	49,105,601	61,005,578
Romania	21,289,898	29,205,010
Germany	245,612	-
Italy	7,511,241	12,350,717
Turkey	-	-
Iraq	-	1,958,195
Pakistan	909,418	-
Jordan	28,203	172,567
Lebanon	127,207	1,214,787
USA	151,165	130,961
Cyprus	-	-
Tunisia	243,616	-
Egypt	858,114	4,142,276
Syria	-	1,111,571
Maroc	-	-
Olanda	382,457	810,259
Kazahstan	1,190,380	468,991
Sweden	6,527	782,016
Bulgaria	-	299,395
Russia	-	213,550
Kosovo	128,575	-
Lithuania	1,290,	-
Others	99,153	205,366
Total	90,190,306	149,583,371

This is a free translation from the original Romanian binding version.

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5. COST OF SALES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Raw materials	50,807,185	92,224,212
Consumables expenses	2,062,799	3,290,012
Packages expenses	2,926	8,572
Energy, water and gas	2,487,911	2,240,857
Repairs	348	11,746
Staff costs	19,205,085	18,150,934
Depreciation and amortization related to non-current assets	3,723,001	3,691,224
Others	7,113	17,555
Third party services	3,731,201	4,162,514
Cost of goods sold	-	(7,824)
Transportation expenses	1,137,623	817,664
Telecommunication expenses	104,101	54,000
Rent	94,312	85,591
Environmental expenses	51,910	89,928
Total	<u>83,415,515</u>	<u>124,836,985</u>

6. OTHER GAINS AND LOSSES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Income from sale of fixed assets	52,114	-
Expenses with disposal of property, plant and equipment	-	-
Income / (Expense) net of exchange differences	<u>(1,457,587)</u>	<u>(4,163,138)</u>
Total	<u>(1,405,473)</u>	<u>(4,163,138)</u>

7. OTHER OPERATING EXPENSES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	<i>RON</i>	<i>RON</i>
Other income	783,536	3,117,271
(Expenses with) / Reversal of provisions for current assets	(3,073,722)	646,313
(Expenses with) provisions for risks and charges	(4,658,562)	(3,852,556)
Travel expenses, and transfer postings	(405,312)	(908,566)
Other expenses	<u>(625,589)</u>	<u>(434,045)</u>
Total	<u>(8,006,649)</u>	<u>(1,431,581)</u>

Recorded in the other income caption as at December 31, 2015 the Company included the amount of RON 1.3 mln related to penalties received from one customer for the cancellation of 6 transformers construction contract.

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8. FINANCE COSTS, NET

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Interest income	(5,946)	(25,668)
Interest expense from loans and leasing	18,993,073	17,259,645
Total	<u>18,987,127</u>	<u>17,233,977</u>

9. ADMINISTRATIVE EXPENSES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Energy, water and gas	676,005	527,308
Repairs expenses	6,509	43,107
Insurance premiums	195,813	303,484
Staff costs	9,523,487	8,162,101
Fees and charges	144,293	8,796
Entertainment, promotion and advertising	29,152	122,771
Other third party services	3,835,751	3,016,712
Other taxes, charges and similar expenses	1,491,219	1,338,378
Consumables expenses	872,842	966,718
Bank charges	1,464,799	2,793,229
Merchandise expenses	-	1,348
Rent expenses	249,008	210,676
Depreciation expense	2,330,783	2,246,891
Total	<u>20,819,661</u>	<u>19,741,519</u>

Depreciation and amortization

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cost of sales	3,723,001	3,691,224
Administrative expenses	2,330,783	2,246,891
Total	<u>6,053,784</u>	<u>5,938,115</u>

Staff costs

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cost of sales	19,205,085	18,150,934
Administrative expenses	9,523,487	8,162,101
Total	<u>28,728,572</u>	<u>26,313,035</u>

10. INCOME TAX

(Income) / expense for the current and deferred tax recognized in the income statement (-a) for 2016 and 2015 is detailed below.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current tax		
Current income tax expense	-	-
Deferred tax (income)	-	-

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10. INCOME TAX (continued)

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Loss before tax	(45,346,757)	(35,979,080)
Tax calculated at the rate of 16%	(7,255,481)	(5,756,493)
Effect of non-deductible expenses	18,365,331	17,403,545
Effect of non taxable income	(14,841,017)	(12,026,073)
Effect of similar items of revenues	-	-
Effect of temporary differences	<u>3,731,167</u>	<u>379,021</u>
Income tax credit for the year	<u>-</u>	<u>-</u>

The tax rate applied to be above reconciliation for the year 2016 and 2015 is 16%.

Deferred tax	<u>December 31, 2015</u>	<u>Recognized in income statement</u>	<u>Recognized in other comprehen sive income</u>	<u>December 31, 2016</u>
	<i>RON</i>	<i>RON</i>	<i>RON</i>	<i>RON</i>
Deferred tax (liability) / receivable recognized in relation to:				
Surplus on revaluation of tangible assets	(2,532,320)	-	-	(2,532,320)
	<u>(2,532,320)</u>	<u>-</u>	<u>-</u>	<u>(2,532,320)</u>
Provisions for guarantees	225,811	405,629	-	631,440
Allowances for doubtful debts	1,093,933	39,789	-	1,133,722
Adjustments for slow moving inventories	<u>1,061,720</u>	<u>327,173</u>	<u>-</u>	<u>1,385,893</u>
	<u>2,381,464</u>	<u>772,591</u>	<u>-</u>	<u>3,154,055</u>
Deferred tax asset not recognized	-	(621,735)	-	(621,735)
Total deferred tax	-			-
Unrecognised deferred tax related to fiscal losses carried forward	<u>15,923,179</u>	<u>(637,953)</u>		<u>15,285,226</u>

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10. INCOME TAX (continued)

The fiscal losses carriedforward are presented below

	Value at December 31, 2016	Value at December 31, 2015
Fiscal loss related to year ended December 31, 2010	-	25,551,902
Fiscal loss related to year ended December 31, 2011	21,570,286	21,570,286
Fiscal loss related to year ended December 31, 2012	4,588,560	4,588,560
Fiscal loss related to year ended December 31, 2013	38,261,087	38,261,087
Fiscal loss related to year ended December 31, 2014	8,783,424	8,783,424
Fiscal loss related to year ended December 31, 2015	764,212	764,212
Fiscal loss related to year ended December 31, 2016	20,531,081	-
TOTAL	95,532,662	99,519,871
Deffered tax asset unrecognised at 16%	15,285,226	15,923,179

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

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11. 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, 2015	198,086,512	64,440,145	243,813,918	107,291,882	5,044,312	618,676,768
Additions	-	-	-	-	408,043	408,043
Transfers	347,068	726,214	17,039	-	-	1,090,320
Disposals	-	-	295,091	-	31,132	31,132
Transfers	-	-	-	-	1,090,320	1,090,320
December 31, 2016	198,433,580	65,166,359	243,535,865	107,291,882	4,330,902	618,758,588
ACCUMULATED DEPRECIATION						
December 31, 2015	-	(8,510,350)	(237,494,705)	(107,236,079)	-	(353,241,134)
Depreciation expense	2,892	4,286,151	1,345,637	17,558	-	5,652,238
Eliminated on disposals of assets	-	-	295,091	-	-	295,091
December 31, 2016	2,892	12,796,501	238,545,251	107,253,637	-	358,598,281

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buildings and other constructions	Plant and machinery	Equipment and vehicles	Advances for fixed assets	Total
IMPAIRMENT ALLOWANCE						
December 31 2015	-	-	-	-	(3,705,815)	(3,705,815)
Impairment losses recognized in profit or loss account	-	-	-	-	-	-
December 31 2016	-	-	-	-	(3,705,815)	(3,705,815)
NET BOOK VALUE						
December 31 2015	198,086,512	55,929,794	6,319,212	55,803	1,339,459	261,729,820
December 31 2016	198,430,688	52,369,858	4,990,614	38,245	8,036,717	256,454,493

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.

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

Fair value of property, plant and equipment

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

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

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

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

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

Information on the hierarchy of fair value as at December 31, 2016 and December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Fair value as at December 31, 2015
Land	-	-	198,086,512	198,086,512
Buildings and other constructions	-	-	55,929,794	55,929,794
				Fair value as at December 31, 2016
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Land	-	-	198,430,688	198,430,688
Buildings and other constructions	-	-	52,369,858	52,369.858

The value at cost of property, plant and equipment as at December 31, 2016 and December 31, 2015, net of accumulated expenses with depreciation and impairment is presented below:

	Value at cost December 31, 2016	Value at cost December 31, 2015
Land	193,449,678	193,102,609
Buildings and other constructions	46,058,461	49,113,498
Plant and machinery	4,990,614	6,319,212
Equipment and vehicles	38,245	55,803
TOTAL	244,536,997	248,591,033

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

1. Pledged property, plant and equipment

As at December 31, 2016 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, 2015: RON 254,016,308).

2. Property, plant and equipment purchased under finance lease

As at December 31, 2016, the net book value of the property, plant and equipment purchased under finance leases was of RON 0 (December 31, 2015: RON 0).

12. INTANGIBLE ASSETS

	<u>Development expenses</u>	<u>Other intangibles</u>	<u>Advances for intangibles</u>	<u>Total</u>
COST				
December 31, 2015	217,867	2,330,412	127,322	2,675,601
Additions		608	19,247	19,855
Disposals				
December 31, 2016	217,867	2,331,020	146,569	2,695,456
ACCUMULATED AMORTISATION				
December 31, 2015	(217,867)	(758,640)	-	(976,507)
Amortisation expense Eliminated on disposal of assets		(469,560)		(469,560)
December 31, 2016	(217,867)	(1,228,200)	-	(1,446,067)
IMPAIRMENT ALLOWANCE				
December 31, 2015	-	-	-	-
Impairment losses of intangible assets in progress				
December 31, 2016	-	-	-	-
December 31, 2015	-	1,571,772	127,322	1,699,094
December 31, 2016	-	1,102,820	146,569	1,249,389

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13. OTHER ASSETS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Guarantees on long-term	345,589	1,381,635
Commercial guarantees to be received	2,822,899	182,017
Provisions for guarantees	(547,284)	(344,418)
Other investments	1,818	1,818
Sundry debtors	515,577	332,322
Advance payments	-	48,219
VAT receivable	14,383,769	12,736,932
Less: Allowance for doubtful VAT receivable	<u>(3,705,076)</u>	<u>(3,705,076)</u>
Total	<u>13,817,292</u>	<u>10,633,449</u>

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 for the year ended December 31, 2016 the case was not settled.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Guarantees on long-term	345,589	1,381,635
Other current assets	<u>13,471,703</u>	<u>9,251,814</u>
Total	<u>13,817,292</u>	<u>10,633,449</u>

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14. INVENTORIES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Raw materials	10,106,795	13,141,512
Consumables	279,449	315,923
Materials in the form of inventory items	1,062,506	830,937
Packaging	251,865	528,006
Finished goods	2,733,219	2,418,685
Work in progress	2,750,304	3,157,769
Semi-finished goods	1,265,456	1,273,135
Residual products	7,532	17,194
Goods	47,369	47,369
Allowance for impairment of inventories	<u>(8,661,832)</u>	<u>(6,635,749)</u>
Total	<u>9,842,663</u>	<u>15,094,781</u>

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

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

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

15. TRADE AND OTHER RECEIVABLES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Trade receivables	91,400,467	84,841,064
Trade receivables recognised under IAS 11	22,165,130	4,317,709
Allowance for doubtful receivables	(7,085,765)	(6,492,662)
Advances paid for inventories	120,935	337,525
Advances paid for services	<u>21,468</u>	<u>21,344</u>
Total	<u>106,622,235</u>	<u>83,024,980</u>

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.

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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:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
60-90 days	12,838,021	24,308
90-120 days	14,996,147	2,486,756
Over 120 days	<u>6,300,329</u>	<u>7,212,035</u>
Total	<u>34,134,497</u>	<u>9,723,099</u>

Movement in allowance for trade receivables is as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Balance at the beginning of the year	6,492,662	521,762
Release in the current year	<u>593,103</u>	<u>5,970,900</u>
Balance at the end of the year	<u>7,085,765</u>	<u>6,492,662</u>

Aging of receivables past due and impaired:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Over 120 days	<u>6,300,329</u>	<u>7,212,035</u>
Total	<u>6,300,329</u>	<u>7,212,035</u>

The Company has no receivables that are past due by more than 365 days and not impaired as at December 31, 2016 and December 31, 2015.

16. CASH AND CASH EQUIVALENTS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Bank accounts	1,450,328	2,845,557
Other	11,737	23,865
Cash equivalents	<u>1</u>	<u>149</u>
Total	<u>1,462,066</u>	<u>2,869,571</u>

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17. ISSUED CAPITAL

Share capital is fully paid as at December 31, 2016 and December 31, 2015.

	<u>No. of shares</u>	<u>Share capital</u> <i>RON</i>
Share capital at December 31, 2016	<u>1,037,602,913</u>	<u>103,760,291</u>
Share capital at December 31, 2015	<u>1,037,602,913</u>	<u>103,760,291</u>
	<u>No of shares</u>	<u>Procent</u>
Shareholder structure December 31, 2016		
Al-Arrab Contracting Company Ltd	991,284,640	95.53%
Other shareholders	46,318,273	4.63%
Total	<u>1,037,603,913</u>	<u>100%</u>
Shareholder structure December 31, 2015		
Al-Arrab Contracting Company Ltd	991,284,640	95.53%
Other shareholders	46,318,273	4.46%
Total	<u>1,037,602,913</u>	<u>100%</u>

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

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Legal reserves	17,784,866	17,784,866
Revaluation reserves	12,837,480	12,837,480
Other	43,133,772	43,133,772
Total	<u>73,756,118</u>	<u>73,756,118</u>

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

The legal reserve created by the Company is in amount of RON 17,784,866 both as at December 31, 2015 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.

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19. BORROWINGS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Loans guaranteed		
Short term loans	99,831,972	78,933,563
Current portion of long term loans	95,586,586	81,433,867
Loans guaranteed		
Long term loans	<u>203,619,726</u>	<u>202,875,394</u>
Total	<u>399,038,284</u>	<u>363,242,824</u>

a) Amounts due to credit institutions

The Company contracted a credit facility amounting to 28,535,000 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 17,785,000 out of which EUR 3,735,000 that can be utilized up until March 30, 2017 and the remaining 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

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19. BORROWINGS (continued)

b) Amounts due to shareholders

As at December 31, 2016 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 203,619,726 (December 31, 2015: RON 202,875,394, equivalent of EUR 44,839,296), granted for financing of working capital, environment and development investments, according to the obligations assumed under the privatization agreement no. 67/30.10.2007.

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

Interest payable at December 31, 2016 on loans from shareholders amounts to RON 95,586,586, equivalent of EUR 21,049,214 (31 December 2015: RON 81,433,867, equivalent of 17,998,424 EUR), calculated at rates ranging between 0% and 6.5% per year.

The interest expense related to the shareholders loan for the year ended December 31, 2015 is in amount of RON 14,152,719 (for the year ended December 31, 2015: RON 13,188,802).

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.

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20. PROVISIONS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Provisions for guarantees to customers	3,946,501	1,411,319
Provisions for restructuring	63,795	-
Provisions for onerous contracts	1,171,931	128,059
Provisions for penalties and interest related to the VAT reimbursement control (Note 14)	4,248,418	4,248,418
Provision for environmental liabilities	-	660,826
Other provisions (*)	4,028,375	2,324,837
Total	<u>13,459,020</u>	<u>8,773,459</u>

(*) Included in the other provision category as at December 31, 2016 is the amount of RON 3,681,433 related to penalties for late delivery (December 31, 2015: RON 1,515,708).

21. TRADE AND OTHER PAYABLES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Trade payables	23,464,444	16,515,009
Invoices to be received	637,743	1,166,442
Advances from customers	13,841,439	4,576,908
Sundry creditors	1,293,277	314,810
Sundry creditors group related	52,300,221	51,094,420
Total	<u>91,537,124</u>	<u>73,667,590</u>

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Salaries payable	2,039,480	1,795,603
Social contributions	1,414,243	554,842
Other taxes	50,800	4,587
Tax on salaries	393,687	273,862
Other current liabilities	281,975	40,046
Total	<u>4,180,185</u>	<u>2,668,940</u>

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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 December 31, 2016 and 2015 were as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Total borrowings	399,038,284	363,242,824
Less: cash and cash equivalents	<u>(1,462,066)</u>	<u>(2,869,571)</u>
Net debt	<u>397,576,218</u>	<u>360,373,253</u>
Total capital and reserves	(118,791,051)	(73,444,294)
Gearing ratio	n/a	n/a

b) Interest rate risk management

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

Interest rate sensitivity

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

If interest rates would be higher / lower by 1% (100 basis points) and all other variables are held constant, the Company's net loss for 2016 would increase / decrease by RON 189,931 (2014: RON 172,596). This is mainly attributable to the Entity's exposure to interest rates on its variable interest rate for EUR denominated borrowings.

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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.

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23. FINANCIAL INSTRUMENTS (continued)

e) Foreign currency risk management

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

2016	EUR		USD		CHF		RON	
	1 EUR=RON	RON	1 USD=RON	RON	1 CHF=RON	RON	1 RON	RON
	4,5411		4,3033		4,2245			
Assets								
Cash and cash equivalents	1,155,053		(19,081)		735		325,359	1,462,066
Trade and other receivables	47,444,217		12,625,961		-		60,023,760	120,093,938
Other non-current assets	-		-		-		345,589	345,589
Liabilities								
Trade and other payables	60,514,303		52,338		125,357		35,025,311	95,717,309
Borrowings short term and long term	358,731,456		4,819,696		0		35,511,708	399,062,860
Finance lease short term and long term	-		-		-		-	-
Net exposure	(370,646,488)		7,734,845		(124,622)		(9,842,311)	(372,878,576)
2015								
	4,5245		4,1477		4,1797			
Assets								
Cash and cash equivalents	782,170		456,878		1,085		1,629,439	2,869,571
Trade and other receivables	49,638,577		-		-		42,638,216	92,276,794
Other non-current assets	142,784		-		-		1,238,851	1,381,635
Liabilities								
Trade and other payables	59,833,247		393,562		216,406		15,893,315	76,336,530
Borrowings short term and long term	351,387,643		6,537,978		-		5,460,382	363,386,002
Finance lease short term and long term	-		-		-		-	-
Net exposure	(360,657,359)		(6,474,662)		(215,321)		24,152,810	(343,194,533)

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24. FINANCIAL INSTRUMENTS (continued)

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.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	<i>RON</i>	<i>RON</i>
Profit or loss +10%	(7,259,318)	(7,393,148)
Profit or loss -10%	7,259,318	7,393,148

	<u>Impact on the profit as at:</u>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
EUR	(7,420,038)	(7,246,554)
USD	163,402	(141,911)
CHF	(2,682)	(4,683)
	<u>(7,259,318)</u>	<u>(7,393,148)</u>

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.

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24. FINANCIAL INSTRUMENTS (continued)

f) Liquidity risk management (continued)

2016	Weighted average interest rate	Less than 1 month	Less than 1 year	1-2 years	2-5 years	Total
Non-interest bearing						
Trade and other payables			95,717,309			95,717,309
Interest bearing instruments						
Borrowing short and long term	(EURIBOR 1M+2.5% but max 4.75%; EURIBOR 1M +7.5 b.p, but max 9.75%)		195,443,134	203,619,726		399,062,860
Cash and cash equivalents		1,462,066				1,462,066
Trade and other receivables			120,093,938			120,093,938
2015	Weighted average interest rate	Less than 1 month	Less than 1 year	1-2 years	2-5 years	Total
Non-interest bearing						
Trade and other payables			76,336,530			76,336,530
Interest bearing instruments						
Borrowing short and long term	(EURIBOR 1M+2.5% but max 4.75%; EURIBOR 1M +7.5 b.p, but max 9.75%)		160,367,430		202,875,394	363,242,824
Cash and cash equivalents		2,869,571				2,869,571
Trade and other receivables			92,276,794			92,276,794

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25. RELATED PARTY TRANSACTIONS

Balances and transactions with related parties are as follows:

	Amounts receivable from Related Parties		Amounts payable to Related Parties	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	RON	RON	RON	RON
Al-Arrab Contracting Company Ltd	9,243,452	195,451	299,206,312	284,309,261
Mada Group for Industrial and Commercial investment	2,850	2,850	5,095,424	5,077,891
Parc Industrial Mija SA- avansuri pentru imobilizari corporale	-	3,602,600	-	-
Mabani Steel	-	-	11,031	-
Osama Al-Halabi	12,099	-	1,320,142	-
Mada Gypsum Company Ltd	-	-	392,664	255,343
Cladtech International	-	-	1,421	1,421
Al Rahji	-	-	45,479,539	45,759,764
Tony Akiki	753	9,335	-	-
Total	9,259,154	3,810,236	351,506,533	335,403,681
	Sale of goods and services		Purchase of goods and services	
	12 months 2016	12 months 2015	12 months 2016	12 months 2015
	RON	RON	RON	RON
Al -Arrab Contracting Company Ltd	-	122,229	301,498	-
Mabani Steel	-	-	-	-
Osama Al-Halabi	26,740	46,512	184	-
Cladtech International	-	-	-	82,780
Mada Gypsum Company Ltd	-	-	-	267,031
Total	26,740	168,741	301,682	349,812

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26. COMMITMENTS AND CONTINGENCIES

Litigations

As at 31 December 2016 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.

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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 December 31, 2016 and December 31, 2015 for any anticipated costs, including legal and consulting fees, design and implementation of remedial plans regarding the environment.

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

27. RESULT PER SHARE

	Year ended December 31, 2016	Year ended December 31, 2015
Loss of the year	(45,346,757)	(23,623,260)
No. of shares	<u>1,037,602,913</u>	<u>1,037,602,913</u>
Earnings per share	<u>(0.04)</u>	<u>(0.02)</u>

28. SUBSEQUENT EVENTS

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