

REPORT OF THE BOARD OF DIRECTORS OF ELECTROPUTERE S.A. ("The Company") FOR THE FINANCIAL YEAR 2016

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

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

a) Structure of the Share Capital

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

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

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

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

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

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

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

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

b) Restrictions on Voting Rights

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

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

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

The right to vote cannot be transferred.

c) Appointment and Replacement of Board Members

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

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

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

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

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

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

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

f) **Internal Audit**

The Company Internal Audit aims at ensuring:

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

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

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

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

2. SCOPE OF ACTIVITY AND PRODUCTION STRUCTURE OF THE COMPANY

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

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

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

The main categories of products for 2016 are:

- electric rotating machines;
- power transformers;

Besides these products, the company develops additional (secondary) activities/services, such as:

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- tools, devices and testers (sensitive testers, dies, devices for the electrotechnical industry, etc.);
- repair and upgrade of equipment and technological installations (repairs on machinery, electrical motors < 150 kw, convertors, lifting devices, spare parts, etc.).

In 2016, Electroputere SA had **2 manufacturing divisions and one division of general services:**

- Electrical Rotating Machines;
- Transformers;
- General Services

3. ORGANIZATION STRUCTURE AND HEADCOUNTS

On Dec. 31, 2016, the number of personnel went up compared to Dec. 31, 2015, due to hiring (37 employees) that took place in 2016; the personnel are allotted among divisions as per below:

Electrical Rotating Machines Division	189
Power Transformers Division	457
General Services Dept.	131
TOTAL	777

4. ACTUAL REVENUE AND EXPENDITURES

According to the P&L concluded on Dec. 31, 2016, the key indicators compared to 2015 are as follow (the amounts are expressed in lei (RON) at the price of the time):

	Year ended December 31, 2016	Year ended, December 31, 2015
Revenue	90,190,306	149,583,371
Cost of sales	(83,415,515)	(124,836,985)
Gross profit	6.774.791	24,746,386
Administration expenses	(20,819,661)	(19,741,519)
Other operating expenses	(8,006,649)	(1,431,583)
Distribution expenses	(2,902,638)	(5,799,429)
Other gains and losses	(1,405,473)	(4,163,138)
Finance costs	(18,993,073)	(17,259,645)
Finance income	5,946	25,668
Loss before tax	(45,346,757)	(23,623,260)
Income tax credit	-	-
Loss for the year	(45,346,757)	(23,623,260)



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Other comprehensive income, net of tax

Gain on revaluation of properties	-	-
Total comprehensive income	(45,346,757)	(23,623,260)

According to the analysis of the above indicators, one can see a decrease of 39.70% of the total income, compared to 2015 and of 33.18% of the cost of sales. In 2016 the Company registered a net loss in amount of 45,346,757 lei.

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

	December 31 2016	December 31 2015
Revenues from sales of goods	86,296,326	147,250,291
Revenue from commodities	-	-
Revenue from rendering of services	1,186,266	255,302
Other revenues	1,707,714	2,077,778
Total	90,190,306	149,583,371

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

Segmentation revenue and profits

	Segment revenues		Segment profit/(losses)	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Power transformers	75,957,384	130,178,900	(15,130,026)	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	(45,863,563)	(23,623,260)

The decrease of sales volume was mainly due to the decrease in the sales of power transformers of 41.65% compared to the previous year.



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The sales of rotating machines decreased by 27.87% compared to 2015.

Information by geographic area

	Revenues per geographic area	
	31-Dec-16	31-Dec-15
KSA	49,105,601	61,005,578
Romania	21,289,898	29,205,010
Italy	7,511,241	12,350,717
Greece	6,622,156	34,512,133
Kazakhstan	1,190,380	468,991
Pakistan	909,418	-
Egypt	858,114	4,142,276
Nederland	382,457	810,259
Germany	245,612	-
Tunisia	243,616	-
USA	151,165	130,961
Kosovo	128,575	-
Lebanon	127,207	1,214,787
Jordan	28,203	172,567
Sweden	6,527	782,016
Lithuania	1,290	-
Iraq	-	1,958,195
Syria	-	1,111,571
Bulgaria	-	299,395
Russia	-	213,550
Others	99,153	205,366
Total	90,190,306	149,583,371

The Cost of Sales was structured as follows:

COST OF SALES

	December 31, 2016	December 31, 2015
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



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Others	7,113	17,555
Third party services	3,731,201	4,162,514
Cost of sold goods	-	(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	83,415,515	124,836,985

5. INFORMATION ON COMPANY ASSETS AND LIABILITIES

See below the balance sheet on Dec. 31, 2016 compared to Dec. 31, 2015 and to Dec. 31, 2014 (values are in lei):

ASSETS	31 dec.2016	31 dec.2015	31 dec.2014
Non-current assets			
Property, plant and equipment	256,454,493	261,729,820	265,912,782
Intangible assets	1,249,389	1,699,094	1,364,984
Other assets	345,589	1,381,635	510,469
Total non-current assets	258,049,471	264,810,549	267,788,235
Current assets			
Inventories	9,842,663	15,094,781	12,305,924
Trade and other receivables	106,622,235	83,024,980	67,437,373
Other assets	13,471,703	9,251,814	10,815,328
Cash and cash equivalents	1,462,066	2,869,571	3,201,052
Total current assets	131,398,667	110,241,146	93,759,677
Total assets	389,448,138	375,051,695	361,547,912
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	103,760,291	103,760,291	1,055,987,861
Reserves	73,756,118	73,756,118	73,756,118
Retained earnings	(296,307,460)	(250,960,703)	(1,179,565,013)
Total equity	(118,791,051)	(73,444,294)	(49,821,034)
Non-current liabilities			
Borrowings	203,619,726	202,875,394	200,974,208
Other non-current liabilities	24,576	143,177	71,089
Total non-current liabilities	203,644,302	203,018,571	201,045,297



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Current liabilities			
Trade and other payables	91,537,124	73,667,589	49,993,228
Borrowings	195,418,558	160,367,430	151,368,219
Provisions	13,459,020	8,773,459	6,167,873
Short term finance lease and other interest bearing obligations	-	-	-
Other current liabilities	4,180,185	2,668,940	2,794,329
<u>Total current liabilities</u>	<u>304,594,887</u>	<u>245,477,418</u>	<u>210,323,649</u>
<u>Total liabilities</u>	<u>508,239,189</u>	<u>448,495,989</u>	<u>411,368,946</u>
<u>Total equity and liabilities</u>	<u>389,448,138</u>	<u>375,051,695</u>	<u>361,547,912</u>

Total stocks decreased by 5,252 thousand lei, which is 34.79 %. The stocks structure is as follows:

	<u>31 dec.2016</u>	<u>31 dec.2015</u>	<u>31 dec.2014</u>
Raw materials	10,106,795	13,141,512	12,404,350
Consumables	279,449	315,923	435,280
Materials in the form of inventory items	1,062,506	830,937	1,071,394
Packaging	251,865	528,006	182,326
Finished goods	2,733,219	2,418,685	2,535,872
Work in progress	2,750,304	3,157,769	2,242,254
Semi-finished goods	1,265,456	1,273,135	1,228,358
Residual products	7,532	17,194	25,430
Goods	47,369	47,369	-
Allowance for impairment of inventories	(8,661,832)	(6,635,749)	(7,819,340)
Total	<u>9,842,663</u>	<u>15,094,781</u>	<u>12,305,924</u>

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

	<u>31 Dec, 2016</u>	<u>31 Dec, 2015</u>	<u>31 Dec, 2014</u>
Balance at the beginning of the year	6,635,749	7,819,340	7,139,029
(Release)/Charge in the current year	2,026,083	(1,183,591)	680,311
Balance at the end of the year	8,661,832	6,635,749	7,819,340

Total receivables increased by 23,597 thousand lei, respectively with 28.42%, as compared to 2015.

31 Dec. 2016 31 Dec. 2015 31 Dec. 2014



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Trade receivables	91,400,467	84,841,064	42,591,878
Trade receivables recognized under IAS 11	22,165,130	4,317,709	25,248,136
Allowance for doubtful receivables	(7,085,765)	(6,492,662)	(521,762)
Advances paid for inventory	120,935	337,525	101,095
Advances paid for services	21,468	21,344	18,026
Total	106,622,235	83,024,980	67,437,373

Movement in allowance for trade receivables is as follows:

	<u>31 Dec. 2016</u>	<u>31 Dec. 2015</u>	<u>31 Dec. 2014</u>
Balance at the beginning of the year	6,492,662	521,762	2,245,145
Charge/(Release) in the current year	593,103	5,970,900	(1,723,383)
Balance at the end of the year	<u>7,085,765</u>	<u>6,492,662</u>	<u>521,762</u>

Total debts went up 13.32%. Since privatization and till the end of 2016, the Company has been permanently financially assisted by the majority shareholder.

On Dec. 31, 2016, the Company registered total debts of 508,239,189 lei, as follows:

	December 31, 2016 RON	December 31, 2015 RON
Non-current liabilities		
Borrowings	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	91,537,124	73,373,375
Borrowings	195,418,558	160,367,430
Provisions	13,459,020	8,773,459
Short term finance lease and other interest bearing obligations	-	-
Other current liabilities	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



6. RISK MANAGEMENT

a. Exchange Rate Risk

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

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

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

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

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

c. Credit Risk

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

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

d. Liquidity Risk

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

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

e. Fair Value of the Financial Instruments

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

- The fair value of the assets and financial debts with standard terms and transactioned on active liquid markets is determined through reference to the quoted market prices;
- The fair value of other assets and financial debts (excluding derivative instruments) is determined in conformity with the generally accepted price models, based on the analysis of the forecasted cash-flow, by using prices from current transactions to be observed on the market and

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- The fair value of the derivative instruments is calculated by using quoted prices. When such prices are not available the analysis of the forecasted cash-flows is used, by analyzing the yield curve applicable to the duration of the derivative instruments that do not include options and option evaluation models for derivative instruments that have options at their basis.

The financial instruments in the company balance sheet include commercial receivables and other types of receivables, cash and cash equivalents, short and long term loans and other debts. The estimated fair values of these instruments assess their accounting values. The accounting values represent the maximum credit risk for the Company, pertaining to the existing receivables.

7. BOOK LOSS COVERAGE

On Dec. 31, 2016, the Company registered an accumulated loss of 250,960,703 RON, 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.

8) CORPORATE GOVERNANCE

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

As of 31 December 2016, Electroputere SA Board of Directors consists of 5 members (one position is currently vacant) and majority of its members are non-executive directors. Provisions for managing conflicts of interest are specified in the mandate agreement concluded between the Company and directors.

As of 31.12.2016, the Company has complied partially with the obligation to set up an Investor Relations department - indicating to the general public the person / persons or organizational unit responsible, meaning that this service is under the responsibility of the Company's Legal Department. The Company has included on its website a section dedicated to investor relations in Romanian and English, with relevant information of interest to investors, namely the General Meetings of Shareholders, Financial Reports, Corporate Governance, periodic reporting, Current News Releases. As of 31.12.2016, the Company's articles of association are included on the Company's website. Regarding procedures for shareholders' meetings, they are described in detail for each general meeting and the assembly notices of the general meetings of shareholders are posted in the General Meetings of Shareholders section. Professional CVs of the members of the management bodies of the Company and other professional commitments of Board members are not yet posted on the Internet.

As of 31.12.2016, the Company included on its website current and periodic reports (quarterly and annual) and the financial statements and auditors' reports.

Shareholders' meetings rules do not limit the participation of shareholders at general meetings and the exercising of their rights. The external auditors are present at the general meeting of shareholders

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when their reports are discussed at these meetings. Any specialist, consultant, expert or financial analyst can attend the shareholders meeting under a prior invitation from the Board. Accredited journalists can also attend the General Meeting of Shareholders, unless the Board decides otherwise. Quarterly and half-yearly financial reports include information both in Romanian and in English on the key factors that influence changes in the levels of sales, EBIT, net profit and other relevant financial indicators.

In fiscal year 2016, the Company has not organized meetings/conference calls with analysts and investors.

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

- the discharge of the Board of Directors for the financial year 2016;
- report of the financial auditor on the financial statements of Electroputere S.A., for 2016;
- the separate financial statements of the Company prepared for the financial year 2016;



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