

Report 1st half-year of 2018 according to ASF Regulation no. 5/2018

Reporting date: Aug. 16, 2018

Name of the Trade Company: S.C. Electroputere S.A.

Headquarters: Craiova, 80 Calea București Street, Dolj County

Tel: 0251 / 437119; **Fax:** 0372003056

Tax Code: 6312800

Registration in the Trade Register: J16/12/1991

Subscribed and paid up capital: 103.760.291,30

Regulated market where issued securities are traded: Bucharest Stock Exchange

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. Electroputere S.A. is listed on Bucharest Stock Exchange, having the symbol „EPT”.

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

During 2018 approximately 74% (2017: 70%) of sales went to Romanian market.

1. a) The report on the main events occurred during the first half of 2018 and their impact on the issuer’s financial situation and its branches.

Electroputere SA (as Seller), on January 30th 2018 has concluded with Electroputere Parc SRL (as Buyer), the sale contract no 303 having as object the transfer of the following assets (immovables):

- The immovable located in Craiova, 80 Calea Bucuresti, Dolj county, cadastral number 229268, registered with land book no. 229268 of Craiova Municipality, Dolj County, composed of the plot of land having a surface of 23,094 sqm, together with the buildings erected on it, having cadastral numbers 229268 – C1-C26;
- The immovable located in Craiova, 80 Calea Bucuresti, Dolj county, cadastral number 229269, registered with land book no. 229269 of Craiova Municipality, Dolj County, composed of the plot of land having a surface of 14,936 sqm, together with the buildings erected on it, having cadastral numbers 229269 – C1-C14;

Total contract price amounts to 9,887,800 Euro, out of which 7,704,500 Euro were paid at the signing date by the Buyer. The difference amounting to 2,183,300 Euro shall be paid within maximum 30 months as of the contract signing date.

The sale of the aforementioned assets will not influence the current activity of the company, being not used for such current activity.

In relation to the sale contract, the mortgage on aforementioned assets has been released by Blom Bank. As a consequence, the credit line contracted with Blom Bank was diminished by EUR 4,850,000, as following:

- Trough addendum no. 27 / 28.02.2018, with the amount of EUR 2,850,000
- Trough addendum no. 28 / 28.03.2018, with the amount of EUR 2,000,000

As a result of the above changes, the credit line contracted with Blom Bank has the following structure:

- An overdraft loan of EUR 2,440,00 for the current activity, that can be utilized up until August 28, 2018
- A revolving facility of EUR 7,000,000 EUR for issuing bank guarantee letters that can be utilized until August 27, 2020
- A revolving facility of EUR 10,510,000 for issuing letters of credit and financing sales contracts, that can be utilized up to June 27, 2019

b) Description of the main risks and uncertainties for the next 6 months

As at June 30, 2018, the Company recorded an accumulated loss from the previous years in the amount of RON 365,267,631, negative net assets in the amount of RON 180,204,975, net current liabilities in amount of RON 294,100,749 and the gain for the year then ended amounts to RON 6,485,967.

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.

Risk management

• Currency risk

The company can be exposed to exchange rate fluctuations through cash and cash equivalents, foreign currency loans, long-term loans, or trade payables denominated in a foreign currency.

The functional currency of the company is the Romanian leu. Currently, the company is exposed to currency risk by cash and cash equivalents, as well as by purchases made in a currency other than the functional currency. The currencies that expose the Company to this risk are mainly EUR, USD, and GBP. Foreign currency liabilities are then expressed in RON, at the exchange rate at the balance sheet date, communicated by the National Bank of Romania. The resulting differences are included in the profit and loss account, but do not affect the cash flow until the debt is cleared.

The exposure of the company to currency risk was insignificant, the risk was considered to be tolerable. Due to the associated costs, the Company's policy is not to use derivative financial instruments to mitigate this risk.

• Interest rate risk

The risk of interest rate at fair value is the risk that the value of a financial instrument fluctuates due to changes in market interest rates. Financial instruments are bearers of interest at market rate, therefore their fair values are not considered to significantly differ from carrying amounts.

- **Credit risk**

Credit risk is the risk that a company will suffer a financial loss as a result of non-fulfillment of contractual obligations by a client or a counterparty to a financial instrument, and this risk is mainly due to trade receivables, cash and cash equivalents and short-term investments of the company.

The company engages in commercial relationships only with recognized third parties, that justify credit financing.

Financial assets that may subject the Company to cash-on receivable are primarily trade receivables, cash and cash equivalents and short-term investments. The amount of net receivables (without adjustment of impairment) is the maximum amount exposed to the cash-on-acquisition risk.

Considering the general economic context, the level of this analyzed risk was medium, for which the company applies special measures for keeping it under control (monitoring the collection of commercial receivables, notification of outstanding clients, calculating penalties according to contractual clauses, taking legal actions against bad-payers).

- **Liquidity risk**

The liquidity risk is managed by the management of the company by applying a policy of permanent insurance for the intended outstanding financial liquidities. This is a high tolerable risk for which the measures designed to keep it under control are reduced to closely monitoring exposure to liquidity risk, maintaining sufficient cash and available credit lines. The company aims to maintain flexibility in funding opportunities through the support of the majority shareholder.

- **Risks of litigation**

The company is subject to a number of court actions resulting from the normal course of business (commercial litigation and regarding tax obligations). The level of risk is low, with low tolerability, and the Company's management considers that these actions will not have a significant adverse effect on the Company's financial results and financial position.

2. Financial situation

The financial information presented below is extracted from the half-yearly accounting reports prepared by S.C. ELECTROPUTERE S.A

At the time of elaboration of the half-yearly Report we took into account the existing data in the synthetic balance on 30.06.2018.

The main indicators reflecting the economic and financial activity on 30 June 2018 are as follows:

a) Issued capital

The amount of the subscribed and paid-up issued capital on June 30, 2018 was 103,760,291.30 RON, representing a total of 1,037,602,913 nominative shares with a nominal value of 0.1 lei / share, without any changes as compared to December 31, 2017.

b) Receivables and liabilities

According to the data recorded on June 30, 2018, the receivables of the company are the following (ron), compared to the same period last year:

	30 iunie 2018	30 iunie 2017
Trade and other receivables	16,788,437	78,200,530
Total non-current liabilities	207,352,012	204,218,245
Total current liabilities	<u>294,100,749</u>	<u>297,708,764</u>

c) Profit and loss analysis

The company achieved during the first half of 2018 the following structure of revenues and expenditures (ron):

	30 iunie 2018	30 iunie 2017
Revenue	38,714,218	46,468,694
Cost of sales	<u>(41,702,213)</u>	<u>(38,003,738)</u>
Gross profit / (loss)	<u>(2,987,995)</u>	<u>8,464,956</u>
Administrative expenses	(11,901,062)	(10,897,111)
Other operating expenses	(1,422,654)	(4,508,772)
Distribution expenses	(621,698)	(1,382,703)
Other gains or (losses)	30,776,858	(1,673,876)
Finance costs	(7,357,895)	(9,196,206)
Finance income	<u>413</u>	<u>241</u>
Profit/Loss before tax	6,485,967	(19,193,471)
Income tax credit	<u> </u>	<u> </u>
Profit/Loss for the year	<u>6,485,967</u>	<u>(19,193,471)</u>
Other comprehensive income, net of tax:		
Gain on revaluation of properties	<u>-</u>	<u>-</u>
Deferred tax related revaluation of properties	<u>-</u>	<u>-</u>
Total comprehensive income	<u>6,485,967</u>	<u>(19,193,471)</u>

d) Economical and financial indicators

Indicator	Calculation method	Result
Current liquidity ratio	Current assets/ debts	0.29
Indebtedness indicator	Loan capital / Equity *100 Loan capital / Capital employed *100	-
Rate of debit turnover - customers	Average balance client / Turnover*180	168
Rate of fixed assets turnover	Turnover / Fixed assets	0.16

Detailed comparative synthetic situation (1st half-year, 2017 – 1st half-year, 2018) as well as the activity analysis of S.C. ELECROPUTERE S.A. are presented as follow:

S.C. ELECTROPUTERE S.A.

**FINANCIAL STATEMENTS
AS OF JUNE 30, 2018**

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

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S.C. ELECTROPUTERE S.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
AS OF JUNE 30, 2018

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

	<u>Note</u>	<u>Year ended June 30, 2018 unaudited</u>	<u>Year ended, June 30, 2017 unaudited</u>
Revenue	4	38,714,218	46,468,694
Cost of sales	5	(41,702,213)	(38,003,738)
Gross profit / (loss)		<u>(2,987,995)</u>	<u>8,464,956</u>
Administrative expenses	9	(11,901,062)	(10,897,111)
Other operating expenses	7	(1,422,654)	(4,508,772)
Distribution expenses		(621,698)	(1,382,703)
Other gains or (losses)	6	30,776,858	(1,673,876)
Finance costs	8	(7,357,895)	(9,196,206)
Finance income	8	413	241
Profit/Loss before tax		6,485,967	(19,193,471)
Income tax credit	10		
Profit/Loss for the year		<u>6,485,967</u>	<u>(19,193,471)</u>
Other comprehensive income, net of tax:			
Gain on revaluation of properties			
Deferred tax related revaluation of properties			
Total comprehensive income		<u>6,485,967</u>	<u>(19,193,471)</u>
Earnings/losses per share		<u>0.006</u>	<u>(0.018)</u>

OSAMA M.T. AL-HALABI
President

LAVINIA PETCU
Financial Manager

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

S.C. ELECTROPUTERE S.A.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2018

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

	Note	June 30, 2018	December 31, 2017
		unaudited RON	audited RON
ASSETS			
Non-current assets			
Property, plant and equipment	11	232,957,157	251.212.282
Intangible assets	12	978,070	1.197.375
Other assets	13	1,590,573	1.586.234
Total non-current assets		235,525,800	253.995.891
Current assets			
Inventories	14	46,358,874	13.926.735
Trade and other receivables	15	16,788,437	60.814.460
Other assets	15	21,689,291	10.395.137
Cash and cash equivalents	16	885,384	1.440.528
Total current assets		85,721,986	86.576.860
Total assets		321,247,786	340.572.751
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	18	103,760,291	103.760.291
Reserves	19	81,302,365	81.302.365
Accumulated deficit		(365,267,631)	(370.244.292)
Total equity		(180,204,975)	(185.181.636)
Non-current liabilities			
Borrowings	20	205,555,625	208.938.180
Retirement benefit obligation LT		1,796,387	1.796.387
Other non-current liabilities		-	-
Total non-current liabilities		207,352,012	210.734.567
Current liabilities			
Trade and other payables	22	105,903,369	105.713.103
Retirement benefit obligation ST		251,664	251.664
Borrowings	20	174,669,009	194.011.036
Provisions	21	4,744,953	10.050.762
Short term finance lease and other interest bearing obligations	24	-	-
Other current liabilities	23	8,531,754	4.993.255
Total current liabilities		294,100,749	315.019.820
Total liabilities		501,452,761	525.754.387
Total equity and liabilities		321,247,786	340.572.751

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S.C. ELECTROPUTERE S.A.
STATEMENT OF CASH FLOW
AS OF JUNE 30, 2018

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

	Year ended as at:	
	June 30, 2018	June 30, 2017
	unaudited	unaudited
Cash flow from operating activities:		
Net loss	6,485,967	(19,193,471)
Adjustments:		
Depreciation and amortization of non-current assets	3,823,854	3,045,332
Revaluation of property effect	-	-
Adjustment of impairment of non current assets	-	(256,025)
Expense / (Reversal) of provisions for doubtful accounts receivable	150,383	513,827
Provisions for other current assets	45,165	-
Charges to / (Reversal of) provisions for slow moving and obsolete inventories	4,240,089	(353,649)
Reversal of) / Charges to provisions for risks and charges	(6,409,223)	(3,379,176)
Income from fixed assets sale	(30,551,125)	-
Retirement benefit adjustment	-	-
Net interest expenses	7,357,482	8,093,916
Unrealized forex (gain) / loss differences	(3,382,555)	870,605
Fixed assets from own production	-	(77,489)
Movements in working capital:		
(Increase) / Decrease in trade and other receivables	6,292,074	28,820,361
Decrease / (Increase) in inventories	(1,947,964)	(1,376,987)
Decrease / (Increase) of good execution guarantees granted to customers	(4,339)	(5,215,059)
Decrease / (Increase) in prepaid expenses	1,168,331	-
Increase in trade and other payables	3,835,604	9,695,610
Cash (used in) / generated by operations	(8,896,257)	21,187,795
Interest paid	(1,978,404)	(1,121,916)
Interest received	-	241
Cash flows (used in) / generated by operating activities	(10,874,661)	20,066,121
Cash flow from investing activities:		
Payments for acquisitions of property, plant and equipment and intangible assets	(816,201)	(735,735)
Proceeds from disposals of property, plant and equipment	35,856,827	-
Cash flows (used in) investing activities	35,040,626	(735,735)

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S.C. ELECTROPUTERE S.A.
STATEMENT OF CASH FLOW
AS OF JUNE 30, 2018

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

	Year ended June 30, 2018	Year ended June 30, 2017
	unaudited	unaudited
Cash flow from financing activities:		
Increase / (Decrease) in loans from financial institutions	(24,721,105)	(19,574,027)
Payments for leasing		
Cash generated by / (used in) financing activities	(24,721,105)	(19,574,027)
Net (decrease) in cash and cash equivalents	(555,140)	(243,642)
Cash and cash equivalents at the beginning of the year	1,440,528	1,462,066
Cash and cash equivalents at the end of the year	885,384	1,218,424

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S.C. ELECTROPUTERE S.A.
STATEMENT OF CHANGES IN EQUITY
AS OF JUNE 30, 2018

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

	<u>Share capital</u>	<u>Other reserves</u>	<u>Revaluation reserves</u>	<u>Accumulated deficit from the transition to IFRS</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2017	<u>103,760,291</u>	<u>60,918,636</u>	<u>12,837,482</u>	<u>377,386,808</u>	<u>(673,694,268)</u>	<u>(118,791,052)</u>
Loss for the year	-	-	-	-	(74,042,664)	(74,042,664)
Other comprehensive income	-	-	8,983,627	-	-	8,983,627
Elimination of share capital inflation adjustment	-	-	(1,437,380)	-	-	(1,437,380)
Others	-	-	-	-	105,833	105,833
Balance at December 31, 2017	<u>103,760,291</u>	<u>60,918,636</u>	<u>20,383,729</u>	<u>377,386,808</u>	<u>(747,631,100)</u>	<u>(185,181,636)</u>

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S.C. ELECTROPUTERE S.A.
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AS OF JUNE 30, 2018

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

	<u>Share capital</u>	<u>Other reserves</u>	<u>Revaluation reserves</u>	<u>Accumulated deficit from the transition to IFRS</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2018	<u>103,760,291</u>	<u>60,918,636</u>	<u>20,383,729</u>	<u>377,386,808</u>	<u>(747,631,101)</u>	<u>(185,181,637)</u>
Profit for the first half of 2018	-	-	-	-	6,485,967	6,485,967
Revaluation of property gain	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Deferred tax related revaluation reserves	-	-	-	-	-	-
Others	-	-	-	-	(1,509,306)	(1,509,306)
Balance at June 30, 2018	<u>103,760,291</u>	<u>60,918,636</u>	<u>20,383,729</u>	<u>377,386,808</u>	<u>(742,654,440)</u>	<u>(180,204,976)</u>

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 President

LAVINIA PETCU
 Financial Manager

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S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018

(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 2018 approximately 74% (2017: 70%) of sales went to Romanian market. Electroputere S.A. is listed on Bucharest Stock Exchange, having the symbol „EPT”. Its prices per share could be analyzed as follows:

	<u>2018</u>	<u>2017</u>
Minimum price	0,0145	0,0200
Maximum price	0,0145	0,0388

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

	<u>2018</u>	<u>2017</u>
Average number of employees	706	744

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

a) Initial application of new amendments to the existing standards effective for the current reporting period

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

- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 12 due to “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28)

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NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
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primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

- **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 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 1 and IAS 28 due to "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 – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

The Company has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Company anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Company in the period of initial application.

b) New standards and amendments to the existing standards 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 for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU (the effective dates stated below is for IFRS in full):

- **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 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **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),

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018

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

- **Amendments to IFRS 9 “Financial Instruments”** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **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 IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on _____ or _____ after 1 January 2019),
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018

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

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 June 30, 2018, the Company recorded an accumulated loss from the previous years in the amount of RON 365,267,631, negative net assets in the amount of RON 180,204,975, net current liabilities in amount of RON 294,100,749 and the gain for the year then ended amounts to RON 6,485,967. 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.

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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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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, 2017: 3.8915 RON/USD and 4.6597 RON/EUR;
- June 30, 2018: 4,0033 RON/USD si 4,6611 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 at June 30, 2018 was 16% (December 31, 2017: 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 Company revaluated its land and buildings as of December 31st 2017, with the support of independent evaluator certified by ANEVAR, and the result was a net loss from revaluation of RON 307,611 out of which the amount of 8,983,627 was booked as increase of revaluation reserves and the amount of RON 9,291,238 was booked as adjustment in te profit and loss account of the 2017 year.

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, pland 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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NOTES TO FINANCIAL STATEMENTS
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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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NOTES TO FINANCIAL STATEMENTS
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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.

	June 30, 2018	June 30, 2017
	unaudited	unaudited
Revenues from sales of goods	38,225,797	45,894,570
Revenue from commodities	-	-
Revenue from rendering of services	28,947	98,321
Other revenues	459,474	475,803
Total	38,714,218	46,468,694

5. COST OF SALES

	June 30, 2018	June 30, 2017
	unaudited	unaudited
Raw materials	24,009,620	22,574,839
Consumables expenses	1,375,266	952,565
Packages expenses	10,313	1,581
Energy, water and gas	1,349,124	1,263,790
Repairs	255	9
Staff costs	11,076,312	9,652,090
Depreciation and amortization related to non-current assets	1,827,879	1,837,728
Others	2,997	7,290
Third party services	1,574,980	1,124,131
Discounts received	-	-
Transportation expenses	-	341,335
Telecommunication expenses	-	35,503
Rent	75,785	47,764
Entertainment, promotion and advertising	181	1,458
Environmental expenses	167,709	163,655
Postal and telecommunication expenses	28,844	-
Travel and detachment costs	202,948	-
Total	41,702,213	38,003,738

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6. OTHER GAINS AND LOSSES

	June 30, 2018	June 30, 2017
	unaudited	unaudited
Income from sale of fixed assets	46,017,905	-
Expenses with disposal of property, plant and equipment	(14,733,056)	-
Income / (Expense) net of exchange differences	<u>(507,991)</u>	<u>(1,673,876)</u>
Total	<u>30,776,858</u>	<u>(1,673,876)</u>

7. OTHER OPERATING EXPENSES

	June 30, 2018	June 30, 2017
	unaudited	unaudited
	RON	RON
Other income	454,710	318,309
(Expenses with) / Reversal of provisions for current assets	(570,715)	(7,995,274)
VAT ANAF	-	-
(Expenses with) provisions for risks and charges	1,019,078	3,379,176
(Expense with) revaluation of property	45,205	-
Travel expenses, and transfer postings	-	(205,106)
Environmental expenses	(2,329,100)	-
Other expenses	<u>(41,833)</u>	<u>(5,877)</u>
Total	<u>(1,422,654)</u>	<u>(4,508,772)</u>

8. FINANCE COSTS, NET

	June 30, 2018	June 30, 2017
	unaudited	unaudited
Interest income	(413)	(241)
Interest expense from loans and leasing	<u>7,357,895</u>	<u>9,196,206</u>
Total	<u>7,357,482</u>	<u>9,195,965</u>

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9. ADMINISTRATIVE EXPENSES

	June 30, 2018	June 30, 2017
Energy, water and gas	225,251	309,746
Repairs expenses	7,859	13,353
Insurance premiums	69,066	83,805
Staff costs	4,924,102	4,678,620
Fees and charges	182,869	8,882
Entertainment, promotion and advertising	19,191	23,644
Travel and detachment costs	190,376	-
Other third party services	2,636,138	2,412,518
Other taxes, charges and similar expenses	930,162	782,366
Consumables expenses	252,297	265,067
Bank charges	412,587	1,019,446
Merchandise expenses	6,404	
Rent expenses	86,258	83,857
Depreciation expense	1,958,502	1,215,807
Total	11,901,062	10,897,111

10. INCOME TAX

(Income) / expense for the current and deferred tax recognized in the income statement (-a) for 2018 and 2017 is detailed below.

	June 30, 2018	June 30, 2017
	unaudited	unaudited
Current tax		
Current income tax expense	-	-
Deferred tax (income)	-	-

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11. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings and other constructions</u>	<u>Plant and machinery</u>	<u>Equipment and vehicles</u>	<u>Advances for fixed assets and capital work in progress</u>	<u>Total</u>
COST						
December 31, 2017	<u>197,711,353</u>	<u>48,764,882</u>	<u>244,001,617</u>	<u>107,303,536</u>	<u>4,502,088</u>	<u>602,283,474</u>
Additions	-	-	430,687	29,874	354,394	814,955
Transfers						
Disposals	14,672,855	330,419	183,264	20,528	259,092	15,466,157
Transfers						
Revaluation impact						
June 30, 2018	<u>183,038,498</u>	<u>48,434,462</u>	<u>244,249,041</u>	<u>107,312,882</u>	<u>4,597,390</u>	<u>587,632,273</u>
ACCUMULATED DEPRECIATION						
December 31, 2017	<u>37,599</u>	<u>796</u>	<u>239,815,994</u>	<u>107,264,101</u>	<u>-</u>	<u>347,118,490</u>
Depreciation expense	17,353	2,939,340	831,300	24,402	-	3,812,394
Eliminated on disposals of assets	-	5,972	181,969	20,528	-	208,469
Revaluation impact						
June 30, 2018	<u>54,952</u>	<u>2,934,163</u>	<u>240,465,325</u>	<u>107,267,975</u>	<u>-</u>	<u>350,722,415</u>

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

	<u>Land</u>	<u>Buildings and other constructions</u>	<u>Plant and machinery</u>	<u>Equipment and vehicles</u>	<u>Advances for fixed assets</u>	<u>Total</u>
IMPAIRMENT ALLOWANCE						
December 31 2017	-	-	-	-	(3,952,701)	(3,952,701)
Impairment losses recognized in profit or loss account	-	-	-	-	-	-
June 30, 2018					(3,952,701)	(3,952,701)
NET BOOK VALUE						
December 31 2017	197,673,754	48,764,086	4,185,623	39,435	549,387	251,212,282
June 30 2018	182,983,546	45,500,299	3,783,716	44,907	644,689	232,957,157

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 June 30, 2018 and December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Fair value as at June 30, 2018 unaudited
Land	-	-	183,038,498	183,038,498
Buildings and other constructions	-	-	48,434,462	48,434,462
				Fair value as at December 31, 2017 audited
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Land	-	-	197,673,754	197,673,754
Buildings and other constructions	-	-	48,764,086	48,764,086

The value at cost of property, plant and equipment as at June 30, 2018 and December 31, 2017, net of accumulated expenses with depreciation and impairment is presented below:

	Value at cost June 30, 2018 unaudited	Value at cost December 31, 2017 audited
Land	182,983,546	193,449,678
Buildings and other constructions	45,500,299	42,038,071
Plant and machinery	3,783,716	4,185,623
Equipment and vehicles	44,907	39,435
TOTAL	232,312,468	239,712,807

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

1. Pledged property, plant and equipment

As of June 30, 2018 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 217,228,500 (December 31, 2017: RON 231,961,556).

2. Property, plant and equipment purchased under finance lease

As of June 30, 2018, the net book value of the property, plant and equipment purchased under finance leases was of RON 0 (December 31, 2017: RON 0).

Electroputere SA (as Seller), on January 30th 2018 has concluded with Electroputere Parc SRL (as Buyer), the sale contract no 303 having as object the transfer of the following assets (immovables):

- The immovable located in Craiova, 80 Calea Bucuresti, Dolj county, cadastral number 229268, registered with land book no. 229268 of Craiova Municipality, Dolj County, composed of the plot of land having a surface of 23,094 sqm, together with the buildings erected on it, having cadastral numbers 229268 – C1-C26;
- The immovable located in Craiova, 80 Calea Bucuresti, Dolj county, cadastral number 229269, registered with land book no. 229269 of Craiova Municipality, Dolj County, composed of the plot of land having a surface of 14,936 sqm, together with the buildings erected on it, having cadastral numbers 229269 – C1-C14;

Total contract price amounts to 9,887,800 Euro, out of which 7,704,500 Euro were paid at the signing date by the Buyer. The difference amounting to 2,183,300 Euro shall be paid within maximum 30 months as of the contract signing date.

The sale of the aforementioned assets will not influence the current activity of the company, being not used for such current activity.

In relation to the sale contract, the mortgage on aforementioned assets has been released by Blom Bank. As a consequence, the credit line contracted with Blom Bank was diminished by EUR 4,850,000, as following:

- Trough addendum no. 27 / 28.02.2018, with the amount of EUR 2,850,000
- Trough addendum no. 28 / 28.03.2018, with the amount of EUR 2,000,000

As a result of the above changes, the credit line contracted with Blom Bank has the following structure:

- An overdraft loan of EUR 2,440,00 for the current activity, that can be utilized up until August 28, 2018
- A revolving facility of EUR 7,000,000 EUR for issuing bank guarantee letters that can be utilized until August 27, 2020
- A revolving facility of EUR 10,510,000 for issuing letters of credit and financing sales contracts, that can be utilized up to June 27, 2019

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12. INTANGIBLE ASSETS

	Development expenses	Other intangibles	Advances for intangibles	Total
COST				
December 31, 2017	217,867	2,331,020	556,910	3,105,797
Additions	-	-	1,247	1,247
Disposals	-	-	623	623
June 30, 2018	217,867	2,331,020	557,533	3,106,420
ACCUMULATED AMORTISATION				
December 31, 2017	217,867	1,690,556	-	1,908,423
Amortisation expense	-	219,929	-	219,929
Eliminated on disposal of assets	-	-	-	-
June 30, 2018	217,867	1,910,484	-	2,128,351
IMPAIRMENT ALLOWANCE				
December 31, 2017	-	-	-	-
Impairment losses of intangible assets in progress	-	-	-	-
June 30, 2018	-	-	-	-
December 31, 2017	0	640,464	556,910	1,197,375
June 30, 2018	0	420,535	557,533	978,069

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13. OTHER ASSETS

	June 30, 2018	December 31, 2017
	unaudited	audited
Guarantees on long-term	1,590,573	1,586,234
Guarantees on short-term	1,582,859	2,376,431
Provisions for guarantees	(201,512)	(246,677)
Other investments	1,818	1,818
Advance payments	976,120	192,211
Sundry debtors	7,632,213	1,224,924
VAT receivable	11,697,793	6,846,431
Less: Allowance for doubtful VAT receivable	-	-
Total	23,279,864	11,981,371

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. Following the fiscal inspection, there is an ongoing litigation between ANAF and Electroputere. On 5th of October 2017, The Appeal Court of Craiova issued Resolution no. 540 by cancelling the fiscal inspection report and rejected the request of Electroputere for VAT reimbursement. Based on management's best estimate related to the recoverability of these amounts as at December 31, 2017, the Company recorded a receivable equal to amount requested to be reimbursed of RON 8,507,956, a liability of RON 1,752,854, and reversed all the previous existing provisions. During the year 2017, Electroputere paid to ANAF the amount of RON 6,245,767 and by the end of February 2018 paid also the rest of RON 1,472,579, covering practically the whole debt claimed by ANAF. However, Electroputere paid all these amounts being forced by participation to public tenders and has never admitted or recognized the dbt. Until the approval of these financial statements for the year ended December 31, 2017 the case was not settled.

	June 30, 2018	December 31, 2017
	unaudited	audited
Guarantees on long-term	1,590,573	1,586,234
Other current assets	21,689,291	10,395,137
Total	23,279,864	11,981,371

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14. INVENTORIES

	June 30, 2018	December 31, 2017
	unaudited	audited
Raw materials	10,986,625	12,843,313
Consumables	327,434	352,522
Materials in the form of inventory items	1,238,917	1,187,073
Packaging	410,422	470,959
Finished goods	2,583,780	2,468,024
Work in progress	43,634,990	5,213,921
Semi-finished goods	498,713	504,595
Residual products	37,309	5,556
Goods	47,369	47,369
Allowance for impairment of inventories	(13,406,685)	(9,166,596)
Total	46,358,874	13,926,735

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:

	June 30, 2018	December 31, 2017
	unaudited	audited
Balance at the beginning of the year	9,166,596	8,661,832
Charge / (Release) in the current year	4,240,089	504,764
Balance at the end of the year	13,406,685	9,166,596

15. TRADE AND OTHER RECEIVABLES

	June 30, 2018	December 31, 2017
	unaudited	audited
Trade receivables	32,908,345	39,180,247
Trade receivables recognised under IAS 11	-	38,313,387
Allowance for doubtful receivables	(17,301,178)	(17,150,795)
Advances paid for inventories	1,155,941	371,146
Advances paid for services	25,329	100,476
Total	16,788,437	60,814,460

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:

	June 30, 2018	December 31, 2017
	unaudited	audited
60-90 days	641,524	392,027
90-120 days	1,261	657,215
Over 120 days	21,771,073	21,493,174
Total	22,413,858	22,542,416

Movement in allowance for trade receivables is as follows:

	June 30, 2018	December 31, 2017
	unaudited	audited
Balance at the beginning of the year	17,150,795	7,085,765
Release in the current year	150,383	10,065,030
Balance at the end of the year	17,301,178	17,150,795

Aging of receivables past due and impaired:

	June 30, 2018	December 31, 2017
	unaudited	audited
Over 120 days	17,301,118	17,150,795
Total	17,301,118	17,150,795

16. CASH AND CASH EQUIVALENTS

	June 30, 2018	December 31, 2017
	unaudited	audited
Bank accounts	854,671	1,422,412
Other	30,713	18,116
Cash equivalents	-	-
Total	885,384	1,440,528

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17. EMPLOYEE BENEFITS

According to the Collective Labor Agreement of Electroputere, the employees have the following benefits:

- Retirement benefits: 1 x negotiated salary of the previous month to retiring
- Employee death allowance: 2 x medium salary in the company realized in the previous month
- Fidelity allowance: 1 x minimum salary in the company, paid when the employee reach the seniority of: 25, 30, 35 and 40 uninterrupted in the company.

During the previous years, the company has not recorded a provision for the employee benefits. For the first half of the year 2018, the provision has the following structure:

	June 30, 2018	December 31, 2017
	unaudited	audited
Retirement benefits	852,695	852,695
Death allowance	273,841	273,841
Fidelity allowance	921,515	921,515
Total	2,048,051	2,048,051

The following assumptions have been considered when the provision amount was calculated:

- Mortality rate of Romania, published by National institute of Statistics (INSSE) for the year 2013
- A rate of 5.9% for the personnel turnover, calculated as average of the last 5 years inside the company
- A balancing forward rate of 4.2%, calculated using the method Smith-Wilson
- Inflation rates using the statistics and prognosis issued by INSSE and NBR as following: 3.2% in 2018; 3.1% in 2019; lineary descending up to 2,5% in the period 2020-2023; 2.5% in 2024 – 2030 and following a descending trend for the following years
- Salary increase rates: an increase of 3% in 2018 and an average of 1% for the following years

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18. ISSUED CAPITAL

Share capital is fully paid as at June 30, 2018 and December 31, 2017.

	<u>No. of shares</u>	<u>Share capital</u> <i>RON</i>
Share capital at December 31, 2017	1,037,602,913	103,760,291
Share capital at June 30, 2018	1,037,602,913	103,760,291
	<u>No of shares</u>	<u>Procent</u>
Shareholder structure December 31, 2017		
Al-Arrab Contracting Company Ltd	991,284,640	95.53%
Other shareholders	46,318,273	4.63%
Total	1,037,603,913	100%
Shareholder structure June 30, 2018		
Al-Arrab Contracting Company Ltd	991,284,640	95,54%
Other shareholders	46,318,273	4,46%
Total	1,037,602,913	100%

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

19. RESERVES

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	<u>unaudited</u>	<u>audited</u>
Legal reserves	17,784,866	17,784,866
Revaluation reserves	20,383,727	20,383,727
Other	43,133,772	43,133,772
Total	81,302,365	81,302,365

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 RON both as at June 30, 2018 and December 31, 2017.

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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20. BORROWINGS

	June 30, 2018	December 31, 2017
	unaudited	audited
Loans guaranteed		
Short term loans	56,670,259	81,391,776
Current portion of long term loans	117,998,750	112,619,260
Loans guaranteed		
Long term loans	205,555,625	208,938,180
Total	380,224,634	402,949,216

a) Amounts due to credit institutions

The Company contracted a credit facility amounting to 19,950,000 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 2,440,000 for the current activity, that can be utilized up until August 28, 2018, with an attached interest rate EURIBOR 1m plus 2.5% per annum but not lower than 4.75% per annum
- A revolving facility of EUR 7,000,000 that can be utilized up until August 27, 2020, 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 10,510,000 can be utilized up to June 27, 2019, with an attached interest rate of EURIBOR 1m plus 2.5%. per annum, but no lower than 4.75% per annum;

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 430,832 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, Ifov county with a surface of 184.000 sqm, property of SC Electroputere SA

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018

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

20. BORROWINGS (continued)

b) Amounts due to shareholders

As at June 30, 2018 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 44,100,239 equivalent of RON 205,555,625 (December 31, 2017: EUR 44,839,296, equivalent of RON 208,938,180), 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 June 30, 2018 on loans from shareholders amounts to RON 117,998,751, equivalent of EUR 25,315,645 EUR (31 December 2017: RON 112,619,260, equivalent of 24,168,779 EUR), calculated at rates ranging between 0% and 6.5% per year.

The interest expense related to the shareholders loan for the first half of 2018 is in amount of RON 5,341,790 RON (for the year ended December 31, 2017: RON 17,132,675).

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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NOTES TO FINANCIAL STATEMENTS
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21. PROVISIONS

	June 30, 2018	December 31, 2017
	unaudited	audited
Provisions for guarantees to customers	1,511,243	2,332,569
Provisions for restructuring	-	-
Provisions for onerous contracts	1,946,145	2,712,600
Provisions for penalties and interest related to the VAT reimbursement control	-	-
Provision for environmental liabilities	-	-
Provision for penalties for late delivery	-	4,552,479
Provision for employees benefits	2,048,051	-
Other provisions (*)	1,287,565	453,114
Total	6,793,004	10,050,762

22. TRADE AND OTHER PAYABLES

	June 30, 2018	December 31, 2017
	unaudited	audited
Trade payables	13,846,921	18,174,747
Invoices to be received	508,194	761,509
Advances from customers	5,880,591	11,890,499
Sundry creditors	135,559	437,500
Sundry creditors group related	85,532,104	74,448,847
Total	105,903,369	105,713,103

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.

23. OTHER CURRENT LIABILITIES

	June 30, 2018	December 31, 2017
	unaudited	audited
Salaries payable	2,030,797	1,927,860
Social contributions	1,308,404	1,491,353
VAT to be paid	3,987,256	616,779
Other taxes	49,590	93,245
Tax on salaries	167,841	579,944
Other current liabilities	987,866	284,074
Total	8,531,754	4,993,255

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018

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24. 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 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings, as presented in notes 18 and 19.

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 June 30, 2018 and 2017 were as follows:

	June 30, 2018	December 31, 2017
	unaudited	audited
Total borrowings	380,224,634	402,949,216
Less: cash and cash equivalents	885,384	(1,440,528)
Net debt	381,110,018	401,508,688
Total capital and reserves	(180,204,975)	(185,181,636)
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.

c) Credit risk management

Interest rate sensitivity

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.

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24. FINANCIAL INSTRUMENTS (continued)

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.

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.

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

25. RELATED PARTY TRANSACTIONS

Balances and transactions with related parties are as follows:

	Amounts receivable from Related Parties		Amounts payable to Related Parties	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
	unaudited RON	audited RON	unaudited RON	audited RON
Al-Arrab Contracting Company Ltd	66,784	1,553,947	323,554,376	330,637,457
Mada Group for Industrial and Commercial investment	2,850	2,850	-	-
Mabani Steel	-	-	8,444	31,762
Osama Al-Halabi	-	-	-	273
Mada Gypsum Company Ltd	-	-	614,334	757,156
Cladtech International	-	-	1,421	1,421
Al Rahji	-	-	84,904,506	73,556,326
Saudi Waterproofing Company	-	-	3,399	3,399
Unipods LLC	-	-	-	98,510
Tony Akiki	-	-	-	-
Total	69,634	1,556,797	409,086,480	405,086,304
	Sale of goods and services		Purchase of goods and services	
	6 months 2018	6 months 2017	6 months 2018	6 months 2017
	RON	RON	RON	RON
Mada Gypsum Company LTD	-	-	-	96,946
Unipods LLC	-	-	-	98,510
Mabani Steel	-	-	-	13,591
Al Rajhi	-	-	-	231,115
Total	-	-	-	440,162

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

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
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26. COMMITMENTS AND CONTINGENCIES

Litigations

As at June 30, 2018 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 the first half of 2018, interest and delay penalties were levied for tax payers' failure to pay their tax obligations on time.

During the first half of 2018, 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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NOTES TO FINANCIAL STATEMENTS
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(all amounts are expressed in RON, unless otherwise specified)

26. COMMITMENTS AND CONTINGENCIES (continued)

Environment

The regulations regarding the environment are in a development phase in Romania and the Company did not record any liabilities as at June 30, 2018 and December 31, 2017 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

	June 30, 2018	December 31, 2017
	unaudited	audited
Profit/Loss of the year	6,485,967	(74,042,664)
No. of shares	1,037,602,913	1,037,602,913
Earnings/Losses per share	0,006	(0,07)

28. SUBSEQUENT EVENTS

There are no subsequent events.

OSAMA M.T. AL-HALABI
President

LAVINIA PETCU
Financial Manager

S.C. ELECTROPUTERE S.A.
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018
(all amounts are expressed in RON, unless otherwise specified)

STATEMENT OF RESPONSIBILITY

as per art.30 from the Accounting Law no.82/1991
and ASF Regulation no. 5/2018

The financial statements for the 1st half of 2018 have been drawn up for:

Entity: S.C. ELECTROPUTERE S.A.

Headquarters: CRAIOVA, 80 Calea Bucuresti Street, Dolj County

Unique Identification Number at the Trade Register Office: 6312800

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

Subscribed and paid up capital: 103.760.291,30 lei

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

The undersigned OSAMA AL HALABI, as President and member of the company Board of Directors, and LAVINIA PETCU, as Finance Manager, assume the responsibility for the financial statements for the 1st half of 2018 and acknowledge that:

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

The financial statements on June 30, 2018 have not been audited yet.

OSAMA M.T. AL-HALABI
President

LAVINIA PETCU
Financial Manager