

## NON-FINANCIAL REPORT

### OVERVIEW

According to OMFP no. 1938 of 17 August 2016 on the amendment and completion of accounting regulations, entities that at the balance sheet date, exceed the average number of 500 employees during the financial year, must prepare a non-financial statement containing, in so far as they are necessary to understand the entity's development, performance and position and the impact of its activity, information of environmental, social and personnel aspects, such as human rights, the fight against corruption and bribery.

In defining and establishing non-financial expectations, Electroputere has defined management policies to ensure that:

- has implemented and developed a partnership system for consistently guiding the organization to meet the requirements of relevant stakeholders;
- Provide the necessary resources to continuously improve the performance of the Integrated Management System Quality, Environment, Safety and Health at Work;
- Awareness and training of the entire personnel regarding the achievement of the objectives of the Integrated Management System;
- the activities are carried out in compliance with the legal, regulatory and other requirements applicable to the activities carried out in Electroputere;
- effective measures are in place to prevent pollution and incidents at work.

Actions to achieve policies:

- ensuring the organizational structure, the resources needed to achieve products that meet customer requirements and other legal and regulatory requirements; Continuous improvement of the quality of the provided products and services;
- identifying, evaluating and minimizing the possibilities of occurrence of environmental and occupational health and safety incidents of their employees, contractors and visitors. Improving Occupational Health and Safety;
- ensuring that policy is communicated and made available to all staff to raise awareness of individual obligations in the field of integrated management; Strengthening and diversifying internal and external collaboration relationships;
- improving and monitoring management systems and processes;
- improving the staff training process and professional development;
- analyze and permanently review the objectives of the integrated management system to ensure their adequacy;
- establishing and maintaining in the long term mutually beneficial relationships with suppliers, to which we ask to adopt the same improvement policy;
- increasing energy efficiency and capitalizing the efficiency of natural resources by developing the management of natural resources and waste generated by specific activities, to reduce the negative impact of technological processes on the environment

- alignment with the European and national requirements on the field of activity;
- improving the general, internal and external communication process of society, of image capital

The organization's priority is to launch products that meet customer requirements, conduct work in a minimal environmental impact environment, not compromise the safety or health of employees, visitors or other stakeholders, with the efficient use of energy resources, material and human resources to achieve the satisfaction of relevant stakeholders.

## **RESPONSIBLE MANAGEMENT AND SUSTAINABLE STRATEGIES**

Starting from the definition of sustainability, "meeting today's needs without sacrificing the ability of future generations to meet their own needs," also known as sustainable development, we underline the importance of such a development policy.

Sustainable development policy helps the organization avoid, reduce or control the harmful impact of its activities on the environment and on the population, comply with the applicable legal requirements, and can be part of a trend that customers appreciate.

The main pillars of sustainability are:

- increasing competitiveness through innovation and transfer of new technologies;
- environmental protection through the implementation of environmental management systems, by streamlining processes or by reducing the consumption of natural resources;
- organizational development and IT integration into the company by developing IT staff that will substantially increase the added value in the company departments, namely the ability to adapt to market requirements;
- communicating and developing human resources through interactive methods and key situations simulations;

Responsible management can be described as an attempt to maintain the balance between the interests of the entire world (people, firms, the environment) for the prosperity of both the present and future generations.

In order to respond to this principle, the policies adopted within the company aim at:

- minimizing the negative impact of the activity on the natural and social environment;
- generating economic benefits to the local community;
- improving working conditions;
- conservation of natural heritage

The commitment assumed by the company's leadership through the "Policy Statement on the Quality-Environment Integrated Management System, Occupational Health and Safety" is a definite proof that ELECTROPUTERE is responsible for ensuring an organizational climate in which all stakeholders: employees, shareholders, clients, suppliers, community and environment can interact effectively and responsibly both economically and socially.

## ENVIRONMENTAL ASPECTS

The main activities in the field of environmental protection in 2017 were planned and organized, aiming to prevent pollution, to reduce the risks of producing environmental incidents on the sites within the company, as well as to comply with the legislative provisions in this field.

The main directions pursued were:

1. Monitoring of regulatory acts.

Electroputere holds the following permits:

- environment authorization
- authorization of water management
- connection-discharge agreement to the city sewerage network

2. Tracking compliance with applicable law

A. Internal evaluation

This activity was carried out by planning various types of integrated internal inspections at the level of DMI. As a result of these inspections, in order to assess the compliance with the applicable legislation and to improve the activity, have been established the following environmental protection measures:

- regarding the hazardous substances management - the display of the revised Safety Data Sheets of the used substances
- regarding the pollution prevention - staff training with accidental pollution contingency plans
- regarding the waste management - related labeling of containers, drafting documents according to the applicable legislation, proper storage of metal waste.

B. External evaluation

In 2017 Electroputere a was subjected to an external inspection carried out by the control structures of the National Environmental Guard.

C. Applied contraventions

Following controls and inspections, were not applied sanctions. In the inspection reports, have been established some improvement measures in the area of:

- waste management;
- analysis of environmental factors;
- authorization of water management;
- contingency plans for accidental pollution;
- the management and storage of dangerous chemicals;



D. Specialty reports to authorities

Monthly and quarterly reports have been prepared to the authorities, in line with the company's obligations:

- according to art. 9, lit. c of OUG no. 196/2005 on the Environmental Fund, the company pays to the Environmental Fund Administration the monthly fees for emissions of pollutants into the atmosphere and for the oil introduced on the domestic market. In order to meet these financial obligations the responsible person follows the consumption of specific resources, quantifies and draws up the statement for the Environment Fund.
- according to the Law no. 211/2011 on the waste management, they are tracked and centralized by the company. The result is sent annually to the Dolj National Environmental Protection Agency - Waste Register.
- was carried out the monitoring management of the waste produced by the company and reporting to the authorities according to the obligations of the environmental permits.

In accordance with the requirements of the Environmental Authorizations issued by the Dolj National Environmental Protection Agency, the monitoring consisted in systematically conducting measurements on environmental factors, on the sites of the company, as follows:

- conducting measurements on the noise level;
- verification of technological installations to detect methane and ethylmercaptan emissions
- determination of atmospheric pollutants emissions CO<sub>x</sub>, NO<sub>x</sub>, SO<sub>x</sub>, dusts, COVs from the combustion gases coming from compressor stations, thermal power stations, gas heaters, painting and resin casting workshops
- identifying different situations that are not compliant with environmental protection legislation and / or accidental pollution
- the preparation of measurement bulletins, environmental assessment sheets and monitoring reports

E. Environmental Protection Expenditure

For the purpose of carrying out the environmental protection activity were provided expenses related to the purchase of specific services and expenses related to the fees requested by the authorities.

In the company's programs, were funded and budgeted necessary environmental services, and were required materials and environmental protection products.

Various types of environmental services have been purchased:

- physical and chemical analysis services for domestic waste water
- physico-chemical analysis services for flue gas evacuation - thermal station
- physico-chemical analysis services for COVs – dyeing

F. Maintaining certification and transition to the new ISO 14001: 2015 standard for the Environmental Management System

- the transition to the new ISO 14001: 2015 standard has begun, identifying all processes related to the activity

## QUALITY MANAGEMENT

In 2017, in order to achieve the policies undertaken regarding the quality, Electroputere has planned efficient processes in order to increase stakeholder satisfaction: shareholders, customers, employees, suppliers, and society.

Electroputere's quality objectives take into account the competitive environment in which the company operates, the expectations of relevant stakeholders.

The main directions pursued were:

	<b>Expectations</b>	<b>Risk</b>	<b>Measures to reduce risk</b>	<b>Objectives/Targets</b>
<b>CUSTOMERS</b>	High quality products; Individualized solutions; flexibility; Long product life; Compliance with legal requirements; compliance with quality, Environmental and SSH requirements; Compliance with delivery times	Understanding the wrong customer requirements: high quality or performance risk; Big errors: high costs / delay in shipment	Permanent and close contact with customers in our market segment; clarifying orders: implementing customer requirements; Increasing the implementation of the SMI; use SMC methods for order processing Maintenance of required certifications / authorizations	Increasing customer confidence and satisfaction.  100% satisfaction of the implicit and explicit customer requirements.
<b>EMPLOYEES</b>	Safe work contract, learning opportunities; correct treatment; organizational culture; training	Unmotivated employees represent a major risk for compliance with product quality requirements, Insufficient staffing for complex or large scale work	Strong communication with employee representatives; expanding development opportunities; Wage negotiation: introducing social benefits; Personal development: personalized training, friendly work environment, flexible programs; Health and safety management: safe jobs	Improvement, training to improve the level of professional training. Target: - Decreasing the number of complaints in TG; -Reviewing the regulations and obtaining / maintaining the necessary individual authorizations
<b>SUPPLIERS</b>	Clear strategy; Continuous development of the relationship: compliance with all applicable laws and regulations; Sustainable use of resources	Inappropriate quality of our products has a great influence on our processes and products	Agreements with clear, long-term requirements - a relationship with suppliers Permanent evaluation of strategic providers	Continuous improvement of product quality Target: - reducing internal and external nonconformities

<b>SHAREHOLDERS</b>	Clear strategic orientation; continuous growth; compliance with the legislation in force; sustainability of resource used		Closer relationship with shareholders, long-term strategy, market monitoring, compliance management, sustainability report	Increase in customer numbers, turnover and profit Targets: - Maintain SMI - Expansion of markets
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The results regarding the quality planning and tracking for the Motors Division are presented by the 11 performance indicators presented below:

No.	Indicator	Objectiv	2017		Degree of achievement
			Planned	Realized	
1	<b>EBITA</b>	Net profit + interest expense + tax expens	124,45	-2,491	0
2	<b>O.E.E (Overall equipment effectiveness)</b>	Availability + Productivity + Quality	70%	14%	20%
3	<b>Revenue vs. Budget</b>	Achieving revenue by budget	8,042	4,118	51%
4	<b>Projects Pool</b>	Received order volume	663,500	390,996	59%
5	<b>Investments</b>	tracking the increase in productivity labor; technological upgrading, improving working conditions	760	0	0
6	<b>Delivery Delays</b>	Number of delays days per total orders in progress	5,312	5,936	112%
7	<b>NSR (non stop rate)</b>	Closing order rate	90%	72,3%	80%
8	<b>DPM (defects per machine)</b>		3	1.14	38%
9	<b>CAR closure rate</b>	Shutdown rate of non-compliance reports	85%	51,8%	61%
10	<b>Customer complain</b>		25	27	1.8%
11	<b>Claims costs</b>		47,3	42,9	91%

## EVALUATION OF CONFORMITY

### Internal evaluation

This activity was carried out by planning inspections and integrated internal audits at the DMI level. As a result of these inspections, to assess the compliance with the requirements of the ISO 9001 standard and to improve the activity, have been established measures to eliminate identified risks.

Department	Objectives	Targets	Measures	Risks
<b>Quality</b>	Maintenance of authorizations and certifications	Recertification of the Integrated Quality/Environment Management System in accordance with ISO 2015 requirements, recertifications in the nuclear field, suppliers list for TRANSELECTRICA, ELECTRICA, CNE	<ul style="list-style-type: none"> <li>- Review of SMI documentation for compliance with new ISO requirements</li> <li>- Analysis of efficiency and effectiveness of improvement measures</li> <li>- implementation of internal audit program</li> </ul>	Loss of customers
<b>Technical Design</b>	Continuous improvement of product quality to increase customer numbers, turnover and profit	Increase competitiveness of offered products -100% products made according to customers requirements and legal regulations	<ul style="list-style-type: none"> <li>- Tipping parts / accessories</li> <li>- Using new software and equipment, developing collaborations with research institutes for implementing new design solutions and new technologies</li> <li>Training and rigorous application of the requirements of current design procedures</li> </ul>	<ul style="list-style-type: none"> <li>- Goods costs in TG</li> <li>- market loss</li> <li>- profit loss</li> </ul>
<b>Purchasing</b>	Maintaining relationship with suppliers	Ensuring supply resources on time without problems of quality	Suppliers selection and evaluation	Delivery delays Profit decrease





<b>Sales</b>	Monitoring customer satisfaction for setting up actions to increase confidence and satisfaction 100% customers satisfaction	100% customers satisfaction	Analysis of customer specifications to choose the best solutions for project implementation, design planning	No prospects for new markets Loss of customers - turnover decrease
	New markets and customers	Increase the number of offers	Links with subcontractors for offering integrated solutions	
<b>HR</b>	Improvement, training to improve the level of professional knowledge, application and compliance of SMI documentation, legal and regulatory requirements applicable by EP staff	Respecting customer requirements for products and services	-Achieving a professional training program - Objective communication, corrective actions ordered, contractual requirements and manufacturing programs - Communication of applicable legal / quality / environmental requirements 100% compliance with the SSM training program	- not achieving goals  -losses with reshaping internal and external nonconformities;  -loss of customers  -accidents, incidents
		Compliance with applicable law and obtaining / maintaining necessary authorizations / approvals		
		Providing resources to meet delivery time		
		Preventing the occurrence of work incidents / accidents		
	Providing work environment	100% machines available according to manufacturing programs	-Performing a mentoring program according to the regulations -monitoring of working environment parameters -compliance with manufacturing programs	-delays in delivery  -loss expenses
		providing resources to meet delivery time		
Full compliance with delivery times				



### External evaluation

In order to withstand the competitive markets Electroputere followed the steps to improve the activity by streamlining the Quality / Environment / SSM integrated management processes in order to meet the customers needs and requirements.

Also, in order to have customers from regulated domains, Electroputere has maintained a quality management system that meets the requirements for the following areas:

- nuclear: Class 3 design and manufacturing authorizations in accordance with CNCAN requirements: NMC 1, NMC 2, NMC 5 and NMC 7
- potentially explosive environments: INSEMEX authorization according to SR EN ISO / CEI 80079-34

Also ELECTROPUTERE has been maintained on the list of accepted suppliers of:

- CNE Cernavodă
- ELECTRICA S.A.
- TRANSELECTRICA SA
- CEZ Distribuție

During the year 2017, was started the process of reviewing the Quality Management System documentation, so that the processes meet the new requirements of ISO 9001/2015. In 2018 will be made the transition to the new standard.

## **CODE OF ETHICS AND INTEGRITY**

ELECTROPUTERE is concerned about understanding, satisfying and overcoming the requirements, needs and expectations of interested parties.

In conducting its activities, ELECTROPUTERE has the following slogan: "THE WHY IN WHICH WE GAIN SUCCESS IN BUSINESS IS AS IMPORTANT AS SUCCESS PER SE".

ELECTROPUTERE general principles:

- **Integrity** - we are an honest group of people.
- **Loyalty** - we are committed to our company and to our customers in order to meet our goals;
- **Responsibility** - we take responsibility for our activities and we are ready to bear the consequences.
- **Upholding the law** - we respect the legal provisions and do not deviate from them. Violation of the law is forbidden.
- **Equity** - both the employees of the company and the clients are treated impartially, fairly and equitably.
- **Customer satisfaction** - we use all the resources to achieve a high quality standard for performed services, to meet customer requirements and gain their loyalty;
- **Experience and competence** - we rely on good professional judgment provided by the experience and value of our employees;
- **Tradition** - over 65 years of experience, we have gained tradition because we believe in the continuity of our values;
- **Team spirit** - we communicate, work together and succeed together;
- **Objectivity** - accurate information and impartial resolution of requests
- **Transparency** - we provide our customers with all the necessary elements for making decisions;
- **Non-discrimination** - we ensure identical treatment for all customers;
- **Privacy** - We protect sensitive information that would harm free and fair competition.

## CONDUCT CRITERIA

ELECTROPUTERE has a “zero tolerance” policy for any kind of conduct that contradicts the Code of Conduct or Directives regarding business practices. Thus, the society aims to prevent the occurrence of any kind of conduct that contravenes the Code or Directives regarding business practices and to end any such conduct in the shortest time possible from its discovery.

ELECTROPUTERE imposed several criteria of conduct as follows:

1. General criteria of conduct:

- **NO INCORRECT PAYMENTS ARE MADE.** In the relationship with public officials, political parties or their officials or any private/public sector worker, we never offer, promise or grant any money or other advantage, either directly or through intermediaries, in order to get business.
- We **do not** offer or receive gifts, payments, favors or services from/to current or potential business partners and that might be considered as influencing commercial transactions that are not part of the usual hospitality obligations or which are prohibited by applicable law and influencing professional decisions.
- We **do not** enter into agreements with actual or potential competitors to fix or set prices or allocate products, markets, territories or customers.
- We **do not** obtain or share with competitors current or future information regarding price, profit margins or costs, offers, market share, distribution practices, sales terms, specific customers or distributors.
- We do not act in a manner that favors or misuses a client against another competing customer.

2. Conduct criteria with employees

- We select, hire and pay people who work at ELECTROPUTERE according to their qualifications for that work without discrimination based on race, religion, nationality, ethnic origin, color, gender, sexual identity, sexual orientation, age, citizenship, marital status, disability or any other feature protected by law.
- We **do not** exploit children
- We offer training and promotion opportunities that enable career development and hierarchical advancement for all those working at ELECTROPUTERE
- We protect the moral integrity of employees by providing them with appropriate working conditions that respect the dignity of the individual.
- We prohibit sexual harassment or any other harassment of ELECTROPUTERE employees by any person, at work or during company-related activities
- We eliminate any possible sources of danger in the workplace and offer ELECTROPUTERE employees a safe and healthy work environment, according to the occupational health and safety laws and standards applicable by:
  - a. the introduction of a fully integrated system for managing risk and occupational health and safety;
  - b. Continuously analyzing the risks and elements of major importance in the processes and resources to be protected;
  - c. using the best available technologies;
  - d. controlling and updating work methodologies;
  - e. organizing communications and training initiatives..



3. Conduct criteria with suppliers

- At the foundation of solid and lasting relationships with suppliers lies honesty and transparency. Suppliers are partners and it is normal for them to make a reasonable profit. We pay the same attention and apply the same treatment to all potential suppliers. Decisions are based on objective criteria such as price and quality as well as the seriousness and integrity of the trader. It is strictly forbidden to offer or receive hidden fees, bribes or other similar payments. We draft a list of suppliers whose qualification criteria do not constitute an access barrier. The key conditions are:
  - a. the existence of available resources, adequately documented, including financial assets, organizational structures, capacity and resource planning, know-how, etc .;
  - b. actual existence and implementation of appropriate quality systems (e.g. ISO 9001).
- **NU** încălcam, în mod conștient, drepturile de proprietate intelectuală ale celorlalți.
- Respectăm secretele comerciale sau informațiile private ale celorlalți.

4. Conduct criteria with the company

- We comply with all laws applicable to ELECTROPUTERE activities. We **do not** stop at the letter of the law, but comply to its essence.
- ELECTROPUTERE is committed to protecting the environment. The environmental strategy is based on the realization of investments and activities that are in line with the principles of sustainable development:
  - a. contracts with environmental professional institutions and associations;
  - b. environmental management systems that are certified by the ISO 14001 standard and which are directed towards continuous improvement of services and the organization of environmental services;
  - c. a system of periodic reporting of environmental data, with the purpose of ensuring the control of performance levels for various industrial activities;
  - d. activities aimed at increasing environmental responsibility and training the employees for this purpose.
- We **do not** fund political parties or candidates or their representatives, nor do we sponsor conventions or festivities whose sole purpose is political propaganda;
- We **do not** pay contributions to companies that might have conflicts of interest;

5. Conduct criteria with customers

- In the relationship with customers we rely on availability, responsibility, respect and politeness, through a relationship of collaboration and professionalism. All products are accompanied by an Instruction Manual/user guide explaining in detail the conditions of assembly, commissioning and safe operation. We provide an appropriate framework for the professional training of customer staff on the offered products/services in order to avoid the occurrence of non-conformities due to inappropriate assembly, commissioning and operation.
- we commit to guarantee adequate quality standards for offered products/services, respect pre-established levels, and periodically monitor the results of our customers' perception of quality.
- we undertake to respond to all complaints, notices and requests made by customers by fast means (e-mail, fax, telephone). We guarantee a rapid customer feedback on response time in order to resolve what needs to be answered as soon as possible.

## STAFF RELATED ASPECTS

Electroputere has constantly reconsidered its human resources policy and work value, trying to adapt to the company's momentary needs, to complete and update itself as the needs of the company have changed.

The development in terms of staff number between 2013-2017 is the following:

Specification	2013	2014	2015	2016	2017
Number of employees at the beginning of the period	1021	753	721	740	779
Number of newly employed people	30	89	95	143	139
Number of people who have terminated their employment relationships with the company	298	121	76	104	129
Number of employees at the end of the period	753	721	740	779	789

In 2017 a number of 139 people were employed and a number of 129 employees terminated their employment relationships with the company.

The development in terms of staff number in 2017 is the following:

Specification	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Number of employees at the beginning of the period	779	772	765	759	760	755	765	767	771	777	783	785
Number of newly employed people	3	5	6	8	7	12	19	14	24	13	17	11
Number of people who have terminated their employment relationships with the company	10	12	12	7	12	2	17	10	18	7	15	7
Number of employees at the end of the period	772	765	759	760	755	765	767	771	777	783	785	789

On December 31, 2017, Electroputere S.A. had 789 employees with individual labor contracts of which 657 employees for indefinite period and 132 fixed-term employees

In the year 2017, given the economic context, labour migration, lack of skilled labor, the company focused its attention on the retention of qualified staff, but also on the training of newly hired staff. Thus, in order to keep the qualifications required for the execution of the works in the portfolio of the company within the company, staff recruitment activities were carried out for vocational training for labor shortage professions in the labor market.

The evolution of the staff structure by category of studies reveals the company's interest in covering the staffing needs by employing staff with higher education, with an obvious tendency to increase the number of employees with secondary education and the number of employees with general education and in the process of qualification.

The evolution of staff structure organized in categories of education during 01.01-31.12.2017 is presented in the following table:

Category	2013	2014	2015	2016	2017
Higher education graduates	213	182	186	202	202
High school graduates	291	287	292	307	304
Vocational school graduates	210	215	223	228	218
General school graduates + training course	39	37	39	42	65
<b>TOTAL EMPLOYEES</b>	<b>753</b>	<b>721</b>	<b>740</b>	<b>779</b>	<b>789</b>

### Improving the staff training, education and professional development

Within the company, the process of staff training is performed continuously and is planned through courses with external trainers from the country or with internal trainers through the "Electroputere Academy".

The training, improvement and professional development of the employees within the company are carried out on the basis of the annual training plan elaborated at the level of the company, in accordance with the provisions of the Collective Labor Contract in force.

The annual training plan was intended to be a systematic process of changing the behavior, knowledge and motivation of employees in order to improve the balance between personal characteristics and workplace requirements.

### FINANCIAL AID GRANTED IN ACCORDANCE WITH THE COLLECTIVE LABOUR CONTRACT

At Electroputere S.A. the granting of financial aid is done according to the regulations of the company's Collective Labor Agreement.

During the year 2017 social benefits were granted to 47 employees amounting to a total of 115,400 lei.

### NON-FINANCIAL INDICATORS

No.	Indicator	Objective	Crt No	2017		Status of achievement
				Planned	Achieved	
1	Investment Increasing energy efficiency	Replacement of reactive electrical power compensation installations in transformer stations and posts by resizing the compensating capacity at the level of present consumptions and automating the connection	1.1			20%
		Replacement of pumps and wastewater and industrial water distribution network from the Oltenia Water Company, with installations sized to the current production capacities	1.2			20%
		Assembly of natural gas meters on the supply pipes of radiant tube heating installations at M.C. and S.T.M (large transformers department) within the PT Division	1.3			

## DESCRIPTION OF THE MAIN CHARACTERISTICS OF THE INTERNAL CONTROL ENVIRONMENT AND RISK MANAGEMENT

### Internal control

In order to ensure responsible management both from the environmental, social, personnel and control point of view, as well as of controlling all the activities carried out in the company and managing the associated risks, the emphasis is on further developing the internal control environment at the company level.

Within the company there is a specialized department called "Controlling", subordinated to the CFO, consisting of 4 employees, the department manager having as main specific tasks: monitoring the departments' accounting operations, especially the financial control systems and maintaining a financial control system on accounting transactions.

The company also has an IMS (Integrated Management System) department, with specialized departments for quality assurance and control, occupational health and safety in its subordination.

Within the company, the internal audit function is outsourced and carried out in accordance with the applicable legal requirements, in compliance with the international audit standards approved by the Chamber of Financial Auditors of Romania. The internal audit attributions in relation to the financial reporting process include:

- Verifying compliance of the company's activities with its policies, programs and management, in accordance with the legal provisions;
- Evaluating the adequacy and application of financial and non-financial controls in order to increase the efficiency of the economic entity's activity;
- Protecting balance sheet and off-balance sheet assets and identifying methods to prevent frauds and losses of any kind.

The management of the company is controlled by its shareholders and by the external financial auditor, according to the legal regulations in force in Romania.

## RISK MANAGEMENT

The notion of "risk" is closely linked to the one of "control", initially implemented in private institutions, where it has fully demonstrated its effectiveness.

The strategic requirements for safety and continuity in operation determine the company to address risk management by identifying and addressing potential losses before the generating events take place, with advance preparation of specific technical, operational and financial solutions to counteract these potential losses.

Besides the risks mentioned in the previous paragraphs, other types of risks were also identified, including:

### **Operational risks**

The Company's results and activity may be influenced by specific operational risks, including the following:

- degradation of materials/property due to inappropriate storage spaces;
- the escalation of the criminal phenomenon of unlawfully removing some valuable goods/materials.

The level of operational risk of asset degradation is a low tolerable risk, which required measures to rehabilitate storage areas.

The level of operational risk of "escalation of the criminal phenomenon" analyzed was medium, it is a low tolerable risk for which short-term measures have been set for its control:

- deterring the criminal phenomenon by introducing an appropriate surveillance and guarding system (provided by an authorized firm).

### **Staffing risk and payroll system**

Staffing risk is that in the future, the company will face a shortage of qualified staff due to the departure of employees from natural causes.

In the year 2017, given the economic context, labour migration, lack of skilled labor, the company focused its attention on the retention of qualified staff, but also on the training of newly hired staff. Thus, in order to keep the qualifications required for the execution of the works in the portfolio of the company within the company, staff recruitment activities were carried out for vocational training for labor shortage professions in the labor market.

The level of this analyzed risk was low, it is a high tolerable risk for which the measures to control it are established on a medium and long term through staff policy and monitoring staff fluctuations (inputs/outputs in/out of the company).

### **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).



### **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.

### **The sensitivity of the interest rate**

The sensitivity analysis presented below was determined for interest-bearing loans existing in the balance at the reporting date, the change considered to have occurred at the beginning of the financial year and remaining stable throughout the next reporting period in the case of fluctuating interest rate loans.

If the interest rates would be higher/lower by 1% (100 basis points) and all other variables would be kept stable, the net loss of the company for 2017 would increase/decrease by 189,302 RON (2016: 189,931 RON). This is mainly due to the exposure of the Company to interest rates on variable rate loans denominated in EUR.

### **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.

### **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.

### **Risks regarding shares**

From the point of view of the value of performed transactions or market capitalization, the Bucharest Stock Exchange can be considered a small stock exchange as compared to other stock exchanges in the world, thus posing risks related to the low market liquidity as well as the high volatility of the price of the traded shares.

The low liquidity of the market may lead to the impossibility of buying or selling Company shares without having a significant impact on the stock price, thus generating a high stock price volatility.

### **The risk determined by the correlation with the evolution of the global market**

Events on the world financial market have a direct and indirect impact on the evolution of the Romanian economy, a fact reflected in the evolution of the Romanian capital market in recent years. Therefore, global financial developments affect both the company's activity and its evolution on the capital market.

### **Legislative risks**

The results of the company's initiatives are hard to anticipate and may suffer from the legislative instability in Romania. Frequent changes to normative acts, including those that have a direct impact on the company's activities, can generate risks for the company.

The level of this analyzed risk of legislative nature was medium, it is a risk with low tolerability for which measures were taken to control it by concluding a tax consultancy contract with a specialized firm, a member of the The Chamber of Tax Consultants from Romania.

### **Risk related to regulatory framework and authorizations**

The main activity of the company involves obtaining and renewing the authorizations/certifications that regulate the activity of the Company, obtaining the permits, approvals and certificates necessary for the performed activity.

The level of risk determined by the analyzed regulatory and licensing framework was high, it is an intolerable risk for which urgent action was taken to control it by monitoring the expiry dates of those authorizations/licenses/certifications and taking actions for their renewal.

### **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.

### **Non-financial performance indicators**

These indicators are performance measurement tools that determine how well the company uses resources, mainly for:

- streamlining of internal activity;
- provision of external customer services;
- meeting legal requirements.

Non-financial performance indicators are usually derived from company policy, customer satisfaction level, company's market share.

**President**  
**Osama Al-Halabi**

**CFO**  
**Bogdan Alexandru Paraschiv**