

REPORT OF THE BOARD OF DIRECTORS OF ELECTROPUTERE S.A. ("The Company") FOR THE FINANCIAL YEAR 2018

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

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

a) Structure of the Share Capital

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

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

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

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

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

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

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

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

b) Restrictions on Voting Rights

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

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

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

The right to vote cannot be transferred.

c) Appointment and Replacement of Board Members

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

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

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

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

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

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

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

f) **Internal Audit**

The Company Internal Audit aims at ensuring:

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

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

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

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

2. SCOPE OF ACTIVITY AND PRODUCTION STRUCTURE OF THE COMPANY

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

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

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

The main categories of products for 2018 are:

- electric rotating machines;
- power transformers;

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

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

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In 2018, Electroputere SA had **2 manufacturing divisions and one division of general services:**

- Electrical Rotating Machines;
- Transformers;
- General Services

3. ORGANIZATION STRUCTURE AND HEADCOUNTS

On Dec. 31, 2018, the number of personnel went down compared to Dec. 31, 2017; the personnel are allotted among divisions as per below:

Electrical Rotating Machines Division	185
Power Transformers Division	323
General Services Dept.	119
TOTAL	627

4. ACTUAL REVENUE AND EXPENDITURES

According to the P&L concluded on Dec. 31, 2018, the key indicators compared to 2017 are as follow (the amounts are expressed in lei (RON) at the price of the time):

	Year ended December 31, 2018	Year ended, December 31, 2017
Revenue	81,263,317	98,620,345
Cost of sales	<u>(82,960,077)</u>	<u>(94,374,560)</u>
Gross profit	<u>(1,696,760)</u>	<u>4,245,560</u>
Administration expenses	(21,683,380)	(24,163,574)
Other operating expenses	(2,198,339)	(22,738,177)
Distribution expenses	(3,066,665)	(2,378,043)
Other gains and losses	29,965,295	(11,516,333)
Finance costs	(14,443,776)	(18,930,293)
Finance income	<u>1,175</u>	<u>591</u>
Loss before tax	(13,122,450)	(75,480,044)
Income tax credit	<u>-</u>	<u>1,437,380</u>
Loss for the year	<u>(13,122,450)</u>	<u>(74,042,664)</u>
Other comprehensive income, net of tax		
Gain on revaluation of properties	<u>-</u>	<u>8,983,627</u>
Deferred income tax	<u>-</u>	<u>(1,437,380)</u>
Total comprehensive income	<u>(13,122,450)</u>	<u>(66,496,417)</u>

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According to the analysis of the above indicators, one can see a decrease of 17.6% of the total income, compared to 2017 and of 12.10% of the cost of sales. In 2018 the Company registered a net loss in amount of 13,122,450 lei.

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

	December 31 2018	December 31 2017
Revenues from sales of goods	78,164,392	95,845,172
Revenue from commodities	18,185	-
Revenue from rendering of services	61,820	664,794
Other revenues	3,018,920	2,110,379
Total	81,263,317	98,620,345

	Segment revenue	
	December 31, 2018	December 31, 2017
Domestic sales (Romania)	56,119,736	68,545,856
Sales on foreign markets	25,143,581	30,074,489
Total	81,263,317	98,620,345

Segmentation revenue and profits

	Segment revenues		Segment profit/(losses)	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Power transformers	60,872,932	78,913,696	(18,204,659)	(29,404,917)
Electric engines	19,117,851	18,957,068	(5,587,755)	(5,160,917)
Administrative – not allocated	1,272,534	749,581	10,669,964	(39,476,830)
Total from operations	81,263,317	98,620,345	(13,122,450)	(74,042,664)

Sales of power transformers decreased with 22.87% compared to 2017.

Sales of rotating machines increased with 0.84% compared to 2017.

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Information by geographic area

	Revenues per geographic area	
	31-Dec-18	31-Dec-17
Romania	56,119,736	68,545,856
Italy	3,516,400	5,190,209
KSA	3,174,580	10,578,269
Greece	3,138,373	136,640
Iraq	3,069,042	-
Egypt	2,367,742	2,503,787
Finland	2,100,777	
Netherlands	1,120,917	1,445,975
USA	1,090,765	-
Jordan	748,231	292,307
Pakistan	665,673	-
Germany	332,888	13,167
Kazakhstan	322,799	990,030
Sweden	202,696	327,643
Lithuania	193,773	933,734
Czech Republic	-	1,597,039
Israel	-	1,418,562
Bulgaria	-	618,181
Kosovo	-	481,728
Morocco	-	464,131
Lebanon	-	250,319
Others	3,098,925	2,832,768
Total	81,263,317	98,620,345

The Cost of Sales was structured as follows:

COST OF SALES

	December 31, 2018	December 31, 2017
Raw materials	47,623,113	62,951,106
Consumables expenses	2,410,336	2,058,678
Packages expenses	13,278	5,956
Energy, water and gas	2,477,382	2,183,888
Repairs	255	-
Staff costs	22,649,342	19,632,036
Depreciation and amortization related to non-current assets	3,837,121	3,436,502
Others	10	2,395
Third party services	3,045,326	3,407,596
Received discounts	-	(495,040)
Transportation expenses	-	660,378
Telecommunication expenses	-	58,902
Rent	128,290	119,583
Environmental expenses	311,939	338,999
Entertainment, promotion and advertising	1,173	13,579
Postal and telecommunication expenses	60,065	-
Travel and detachment costs	402,447	-
Total	82,960,077	94,374,560

5. INFORMATION ON COMPANY ASSETS AND LIABILITIES

See below the balance sheet on Dec. 31, 2018 compared to Dec. 31, 2017 and to Dec. 31, 2016 (values are in lei):

ASSETS	31 dec.2018	31 dec.2017	31 dec.2016
Non-current assets			
Property, plant and equipment	228,948,585	251,212,282	256,454,493
Intangible assets	772,402	1,197,375	1,249,389
Other assets	1,586,132	1,586,234	345,589
Total non-current assets	231,307,119	253,995,891	258,049,471
Current assets			
Inventories	9,048,052	13,926,735	9,842,663
Trade and other receivables	51,247,724	60,814,460	106,622,235
Other assets	23,686,261	10,395,137	13,471,703
Cash and cash equivalents	2,730,073	1,440,528	1,462,066
Total current assets	86,712,110	86,576,860	131,398,667
Total assets	318,019,229	340,572,751	389,448,138
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	103,760,291	103,760,291	103,760,291
Reserves	81,302,365	81,302,365	73,756,118
Retained earnings	(383,366,741)	(370,244,292)	(296,307,460)
Total equity	(198,304,085)	(185,181,636)	(118,791,051)
Non-current liabilities			
Borrowings	-	208,938,180	203,619,726
Retirement benefit obligation LT	700,668	1,796,387	-
Other non-current liabilities	-	-	24,576
Total non-current liabilities	4,501,488	210,734,567	203,644,302
Current liabilities			
Trade and other payables	108,813,074	105,713,103	91,537,124
Employees benefits liabilities	131,473	251,664	-
Borrowings	386,016,062	194,011,036	195,418,558
Provisions	5,262,513	10,050,762	13,459,020

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Short term finance lease and other interest-bearing obligations	-	-	-
Other current liabilities	11,598,704	4,993,255	4,180,185
<u>Total current liabilities</u>	<u>511,821,826</u>	<u>315,019,820</u>	<u>304,594,887</u>
<u>Total liabilities</u>	<u>516,323,314</u>	<u>525,754,387</u>	<u>508,239,189</u>
<u>Total equity and liabilities</u>	<u>318,019,229</u>	<u>340,572,751</u>	<u>389,448,138</u>

Total stocks decreased by 4,878 thousand lei, which is 35.04%, compared with 2017. The stocks structure is as follows:

	<u>31 dec.2018</u>	<u>31 dec.2017</u>	<u>31 dec.2016</u>
Raw materials	10,337,580	12,843,313	10,106,795
Consumables	289,365	352,522	279,449
Materials in the form of inventory items	1,197,212	1,187,073	1,062,506
Packaging	434,662	470,959	251,865
Finished goods	1,202,191	2,468,024	2,733,219
Work in progress	2,632,130	5,213,921	2,750,304
Semi-finished goods	593,092	504,595	1,265,456
Residual products	5,555	5,556	7,532
Goods	47,369	47,369	47,369
Allowance for impairment of inventories	(7,691,104)	(9,166,596)	(8,066,937)
Total	<u>9,048,052</u>	<u>13,926,735</u>	<u>9,842,663</u>

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

	<u>31 Dec, 2018</u>	<u>31 Dec, 2017</u>	<u>31 Dec, 2016</u>
Balance at the beginning of the year	9,166,596	8,661,832	6,635,749
(Release)/Charge in the current year	(1,475,492)	504,764	2,026,083
Balance at the end of the year	<u>7,691,104</u>	<u>9,166,596</u>	<u>8,661,832</u>

Total receivables decreased by 9,566 thousand lei, respectively with 15.74%, as compared with 2017.

	<u>31 Dec. 2018</u>	<u>31 Dec. 2017</u>	<u>31 Dec. 2016</u>
Trade receivables	64,296,807	39,180,247	91,400,467
Trade receivables recognized under IAS 11	5,839,487	38,313,387	22,165,130
Allowance for doubtful receivables	(19,146,563)	(17,150,795)	(7,085,765)

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Advances paid for inventory	235,075	371,146	120,935
Advances paid for services	22,918	100,476	21,468
Total	51,247,724	60,814,460	106,622,235

Movement in allowance for trade receivables is as follows:

	<u>31 Dec. 2018</u>	<u>31 Dec. 2017</u>	<u>31 Dec. 2016</u>
Balance at the beginning of the year	17,150,795	7,085,765	6,492,662
Charge/(Release) in the current year	(1,995,768)	10,065,030	593,103
Balance at the end of the year	<u>19,146,563</u>	<u>17,150,795</u>	<u>7,085,765</u>

Total debts decreased by 0.46%. Since privatization and till the end of 2018, the Company has been permanently financially assisted by the majority shareholder.

On Dec. 31, 2018, the Company registered total debts of **516,323,314** lei, as follows:

	December 31, 2018 RON	December 31, 2017 RON
Non-current liabilities		
Borrowings	-	208,938,180
Retirement benefit obligation LT	700,668	1,796,387
Other non-current liabilities	3,800,820	-
Total non-current liabilities	4,501,488	210,734,567
Current liabilities		
Trade and other payables	108,813,074	105,713,103
Employees benefits liabilities	131,473	251,664
Borrowings	386,016,062	194,011,036
Provisions	5,262,513	10,050,762
Short term finance lease and other interest bearing obligations	-	-
Other current liabilities	11,598,704	4,993,255
Total current liabilities	511,821,826	315,019,820
Total liabilities	516,323,314	525,754,387
Total equity and liabilities	318,019,229	340,572,751

6. SIGNIFICANT EVENTS DURING 2018

Following Company's Extraordinary General Meeting of the Shareholders' Decision no 71/26.04.2017, a first sale-purchase agreement was concluded on January 30th, 2018, for selling of two plots from the Property for the overall price of 9,887,800 Euro.

Negotiations are ongoing for finalizing selling of the entire Property, as approved by GSM decision no 71/26.04.2017.

Mr. Ahmed Ibrahim Al Bassam resigned from his position of Chairman and member of the Board of Directors. On July 10th, 2018, the Board of Directors decided to appoint Mr. Esmail Mohammed Al Sallom as new Chairman of the Board of Directors. The Board of Directors also appointed Mr. Syed Nadeem Uddin Ahmed as provisory Board member, replacing Mr. Al Bassam.

Mrs. Mona Mohamed Moneeb AGHA resigned from her position of member of the Board of Directors. On December 7th, 2018, the Board of Directors decided to appoint Mr. Amer Abdel Jaber Abdallatif Al-Khatib as provisory Board member, replacing Mrs. Mona Mohamed Moneeb AGHA.

7. RISK MANAGEMENT

a. Exchange Rate Risk

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

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

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

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

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

c. Credit Risk

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

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

d. Liquidity Risk

Liquidity risk (also called funding risk) refers to the risk by which an entity could have difficulties in securing the necessary funds to meet commitments associated with financial instruments. Liquidity risk

may result from the inability to quickly sell a financial asset at a value close to its fair value.

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

e. Fair Value of the Financial Instruments

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

- The fair value of the assets and financial debts with standard terms and transactions on active liquid markets is determined through reference to the quoted market prices;
- The fair value of other assets and financial debts (excluding derivative instruments) is determined in conformity with the generally accepted price models, based on the analysis of the forecasted cash-flow, by using prices from current transactions to be observed on the market and
- The fair value of the derivative instruments is calculated by using quoted prices. When such prices are not available the analysis of the forecasted cash-flows is used, by analyzing the yield curve applicable to the duration of the derivative instruments that do not include options and option evaluation models for derivative instruments that have options at their basis.

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

8. BOOK LOSS COVERAGE

On Dec. 31, 2018, the Company registered an accumulated loss of 383,366,741 RON, negative net assets in the amount of RON 198,304,085, net current liabilities in amount of RON 511,821,826 and the loss for the year then ended amounts to RON 13,122,450.

9) CORPORATE GOVERNANCE

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

As of 31 December 2018, Electroputere SA Board of Directors consists of 5 members (one position is currently vacant) and majority of its members are non-executive directors. Provisions for managing conflicts of interest are specified in the mandate agreement concluded between the Company and directors.

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As of 31.12.2018, the Company has complied partially with the obligation to set up an Investor Relations department - indicating to the general public the person / persons or organizational unit responsible, meaning that this service is under the responsibility of the Company's Legal Department. The Company has included on its website a section dedicated to investor relations in Romanian and English, with relevant information of interest to investors, namely the General Meetings of Shareholders, Financial Reports, Corporate Governance, periodic reporting, Current News Releases. Professional CVs of the members of the management bodies of the Company and other professional commitments of Board members are not yet posted on the Internet.

As of 31.12.2018, the Company included on its website current and periodic reports (quarterly and annual) and the financial statements and auditors' reports.

Shareholders' meetings rules do not limit the participation of shareholders at general meetings and the exercising of their rights. The external auditors are present at the general meeting of shareholders when their reports are discussed at these meetings. Any specialist, consultant, expert or financial analyst can attend the shareholders meeting under a prior invitation from the Board. Accredited journalists can also attend the General Meeting of Shareholders, unless the Board decides otherwise. Quarterly and half-yearly financial reports include information both in Romanian and in English on the key factors that influence changes in the levels of sales, EBIT, net profit and other relevant financial indicators.

During 2018 fiscal year the Company has not organized meetings/conference calls with analysts and investors.

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

- the discharge of the Board of Directors for the financial year 2018;
- report of the financial auditor on the financial statements of Electroputere S.A., for 2018;
- the separate financial statements of the Company prepared for the financial year 2018;

CHAIRMAN OF THE BOARD OF DIRECTORS
Esmail Mohammed ALSALLOM