

## **REPORT OF THE BOARD OF DIRECTORS OF ELECTROPUTERE S.A. ("The Company") FOR THE FINANCIAL YEAR 2019**

### **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. Samer Al Shalabi – General Manager

#### **a) Structure of the Share Capital**

Currently, the ownership structure is the following:

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
<b>Total</b>	<b>1,037,602,913</b>	<b>100.0000</b>

#### **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 2019 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.).

In 2019, 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, 2019, the number of personnel went down compared to Dec. 31, 2018; the personnel are allotted among divisions as per below:

Electrical Rotating Machines Division	2
Power Transformers Division	112
General Services Dept.	51
<b>TOTAL</b>	<b>165</b>

### 4. ACTUAL REVENUE AND EXPENDITURES

According to the P&L concluded on Dec. 31, 2019, the key indicators compared to 2019 are as follow (the amounts are expressed in lei (RON) at the price of the time):

	Year ended December 31, 2019	Year ended, December 31, 2018
Revenue	31,680,061	81,263,317
Cost of sales	(40,083,646)	(82,960,077)
<b>Gross profit</b>	<b>(8,403,585)</b>	<b>(1,696,760)</b>
Administration expenses	(23,147,806)	(21,683,380)
Other operating expenses	(52,400,539)	(2,198,339)
Distribution expenses	(799,740)	(3,066,665)
Other gains and losses	(19,482,911)	29,965,295

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Finance costs	(14,246,990)	(14,443,776)
Finance income	5,543	1,175
Loss before tax	(118,476,029)	(13,122,450)
Income tax credit	-	-
<b>Loss for the year</b>	<b>(118,476,029)</b>	<b>(13,122,450)</b>
<b>Other comprehensive income, net of tax</b>		
Gain on revaluation of properties	33,503,751	-
Deferred income tax	-	-
<b>Total comprehensive income</b>	<b>(84,972,278)</b>	<b>(13,122,450)</b>

According to the analysis of the above indicators, one can see a decrease of 61.01% of the total revenue, compared to 2018 and of 51.68% of the cost of sales. In 2019 the Company registered a net loss in amount of 84,972,278 lei.

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

	December 31 2019	December 31 2018
Revenues from sales of goods	28,557,973	78,164,392
Revenue from commodities	313	18,185
Revenue from rendering of services	99,778	61,820
Other revenues	3,021,997	3,018,920
<b>Total</b>	<b>31,680,061</b>	<b>81,263,317</b>

	Segment revenue December 31, 2019	December 31, 2018
Domestic sales (Romania)	26,381,966	56,119,736
Sales on foreign markets	5,298,095	25,143,581
<b>Total</b>	<b>31,680,061</b>	<b>81,263,317</b>

**Segmentation revenue and profits**

	Segment revenues December 31, 2019	December 31, 2019	Segment profit/(losses) December 31, 2019	December 31, 2019
Power transformers	21,523,355	60,872,932	(56,983,720)	(18,204,659)



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Electric engines	8,504,328	19,117,851	(8,143,583)	(5,587,755)
Administrative – not allocated	1,652,378	1,272,534	(53,348,726)	10,669,964
<b>Total from operations</b>	<b>31,680,061</b>	<b>81,263,317</b>	<b>(118,476,029)</b>	<b>(13,122,450)</b>

Sales of power transformers decreased with 64.65% compared to 2018.

Sales of rotating machines decreased with 55.51% compared to 2018.

**Information by geographic area**

	<b>Revenues per geographic area</b>	
	<b>31-Dec-18</b>	<b>31-Dec-17</b>
Romania	26,381,966	56,119,736
Germany	3,003,208	332,888
Italy	1,609,643	3,516,400
USA	225,058	1,090,765
Spain	202,130	-
Lithuania	183,106	193,773
Netherlands	50,459	1,120,917
KSA	-	3,174,580
Greece	-	3,138,373
Iraq	-	3,069,042
Egypt	-	2,367,742
Finland	-	2,100,777
Jordan	-	748,231
Pakistan	-	665,673
Kazakhstan	-	322,799
Sweden	-	202,696
Others	24,491	3,098,925
<b>Total</b>	<b>31,380,061</b>	<b>81,263,317</b>

The Cost of Sales was structured as follows:

**COST OF SALES**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Raw materials	18,705,481	47,623,113
Consumables expenses	911,793	2,410,336
Packages expenses	3,183	13,278
Energy, water and gas	1,571,697	2,477,382
Repairs	7,959	255
Staff costs	12,935,376	22,649,342

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Depreciation and amortization related to non-current assets	3,628,483	3,837,121
Others	7	10
Third party services	1,805,868	3,045,326
Received discounts	-	-
Travel and detachment costs	169,353	402,447
Postal and telecommunication expenses	29,198	60,065
Rent	85,740	128,290
Environmental expenses	227,499	311,939
Entertainment, promotion and advertising	2,009	-
<b>Total</b>	<b>40,083,646</b>	<b>82,960,077</b>

## 5. INFORMATION ON COMPANY ASSETS AND LIABILITIES

See below the balance sheet on Dec. 31, 2019 compared to Dec. 31, 2018 and to Dec. 31, 2017 (values are in lei):

<b>ASSETS</b>	<b>31 dec.2019</b>	<b>31 dec.2018</b>	<b>31 dec.2017</b>
<b>Non-current assets</b>			
Property, plant and equipment	226,871,990	228,948,585	251,212,282
Intangible assets	636	772,402	1,197,375
Other assets	2,015,722	1,586,132	1,586,234
<b>Total non-current assets</b>	<b>228,888,348</b>	<b>231,307,119</b>	<b>253,995,891</b>
<b>Current assets</b>			
Inventories	-	9,048,052	13,926,735
Trade and other receivables	7,344,146	51,247,724	60,814,460
Other assets	24,490,418	23,686,261	10,395,137
Cash and cash equivalents	5,572,075	2,730,073	1,440,528
<b>Total current assets</b>	<b>37,406,639</b>	<b>86,712,110</b>	<b>86,576,860</b>
<b>Total assets</b>	<b>266,294,987</b>	<b>318,019,229</b>	<b>340,572,751</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Issued capital	103,760,291	103,760,291	103,760,291
Reserves	114,806,116	81,302,365	81,302,365
Retained earnings	(501,842,770)	(383,366,741)	(370,244,292)
<b>Total equity</b>	<b>(283,276,363)</b>	<b>(198,304,085)</b>	<b>(185,181,636)</b>
<b>Non-current liabilities</b>			
Borrowings	-	-	208,938,180

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Retirement benefit obligation LT	-	700,668	1,796,387
Other non-current liabilities	2,516,005	3,800,820	-
<b>Total non-current liabilities</b>	<b>2,516,005</b>	<b>4,501,488</b>	<b>210,734,567</b>
<b>Current liabilities</b>			
Trade and other payables	174,910,337	108,813,074	105,713,103
Employees benefits liabilities	-	131,473	251,664
Borrowings	360,858,590	386,016,062	194,011,036
Provisions	4,767,116	5,262,513	10,050,762
Other current liabilities	6,519,262	11,598,704	4,993,255
<b>Total current liabilities</b>	<b>547,055,345</b>	<b>511,821,826</b>	<b>315,019,820</b>
<b>Total liabilities</b>	<b>549,571,350</b>	<b>516,323,314</b>	<b>525,754,387</b>
<b>Total equity and liabilities</b>	<b>266,294,987</b>	<b>318,019,229</b>	<b>340,572,751</b>

The stocks structure is as follows:

	<u>31 dec.2019</u>	<u>31 dec.2018</u>	<u>31 dec.2017</u>
Raw materials	5,895,391	10,337,580	12,843,313
Consumables	224,240	289,365	352,522
Materials in the form of inventory items	210,584	1,197,212	1,187,073
Packaging	98,513	434,662	470,959
Finished goods	1,038,244	1,202,191	2,468,024
Work in progress	763,375	2,632,130	5,213,921
Semi-finished goods	595,416	593,092	504,595
Residual products	4,540	5,555	5,556
Goods	47,369	47,369	47,369
Allowance for impairment of inventories	(8,877,673)	(7,691,104)	(9,166,596)
<b>Total</b>	<b>-</b>	<b>9,048,052</b>	<b>13,926,735</b>

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

	<u>31 Dec, 2019</u>	<u>31 Dec, 2018</u>	<u>31 Dec, 2017</u>
Balance at the beginning of the year	7,691,104	9,166,596	8,661,832
(Release)/Charge in the current year	1,186,569	(1,475,492)	504,764
<b>Balance at the end of the year</b>	<b>8,877,673</b>	<b>7,691,104</b>	<b>9,166,596</b>

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Total receivables decreased by 43,903 thousand lei, respectively with 85.66%, as compared with 2018.

	<u>31 Dec. 2019</u>	<u>31 Dec. 2018</u>	<u>31 Dec. 2017</u>
Trade receivables	52,935,771	64,296,807	39,180,247
Trade receivables recognized under IAS 11	-	5,839,487	38,313,387
Allowance for doubtful receivables	(46,100,178)	(19,146,563)	(17,150,795)
Advances paid for inventory	494,474	235,075	371,146
Advances paid for services	14,080	22,918	100,476
<b>Total</b>	<b>7,344,147</b>	<b>51,247,724</b>	<b>60,814,460</b>

Movement in allowance for trade receivables is as follows:

	<u>31 Dec. 2019</u>	<u>31 Dec. 2018</u>	<u>31 Dec. 2017</u>
Balance at the beginning of the year	19,146,563	17,150,795	7,085,765
Charge/(Release) in the current year	26,953,615	(1,995,768)	10,065,030
<b>Balance at the end of the year</b>	<b>46,100,178</b>	<b>19,146,563</b>	<b>17,150,795</b>

Total debts decreased by 6.43%. Since privatization and till the end of 2019, the Company has been permanently financially assisted by the majority shareholder.

On Dec. 31, 2019, the Company registered total debts of **549,571,350** lei, as follows:

	<b>December 31, 2019 RON</b>	<b>December 31, 2018 RON</b>
<b>Non-current liabilities</b>		
Borrowings	-	-
Retirement benefit obligation LT	-	700,668
Other non-current liabilities	2,516,005	3,800,820
<b>Total non-current liabilities</b>	<b>2,516,005</b>	<b>4,501,488</b>
<b>Current liabilities</b>		
Trade and other payables	174,910,377	108,813,074
Employees benefits liabilities	-	131,473
Borrowings	360,858,590	386,016,062
Provisions	4,767,116	5,262,513
Other current liabilities	6,519,262	11,598,704



<b>Total current liabilities</b>	<b>547,055,345</b>	<b>511,821,826</b>
<b>Total liabilities</b>	<b>549,571,350</b>	<b>516,323,314</b>
<b>Total equity and liabilities</b>	<b>266,294,987</b>	<b>318,019,229</b>

## 6. SIGNIFICANT EVENTS DURING 2019

During 2019, massive personnel restructuring has been decided by the Board of Directors, In total, a number of 555 jobs were restructured.

In December 2019, General Meeting of the Shareholders appointed new Board of Directors. Such new Board of Directors mission is to identify new business opportunities in order to re-launch the company activity.

## 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, 2019, the Company registered an accumulated loss of 501,842,770 RON, negative net assets in the amount of RON 283,276,363, net current liabilities in amount of RON 547,055,345 and the loss for the year then ended amounts to RON 118,476,029.

### **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 2019, 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



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As of 31.12.2019, 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 31.12.2019, 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 2019 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 2019;
- report of the financial auditor on the financial statements of Electroputere S.A., for 2019;
- the separate financial statements of the Company prepared for the financial year 2019;

**CHAIRMAN OF THE BOARD OF DIRECTORS**  
**Hesham Ahmed Mohamed Elsayed HEIKAL**

