

REPORT OF THE BOARD OF DIRECTORS OF ELECTROPUTERE S.A. ("The Company") FOR THE FINANCIAL YEAR 2020

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	1,018,822,352	98.19
Shareholders – Individuals and Companies	18,780,561	1.81
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**.

S.C. ELECTROPUTERE S.A.
 REPORT ON FINANCIAL STATEMENTS
 AT DECEMBER 31st 2020
 (all the amounts are considered in Ron, unless otherwise specified)

The main categories of products for 2020 were power transformers;

In 2020, Electroputere SA had **one manufacturing divisions and one division of general services.**

3. ORGANIZATION STRUCTURE AND HEADCOUNTS

On Dec. 31, 2020, the number of personnel went down compared to Dec. 31, 2019; the personnel are allotted among divisions as per below:

Power Transformers Division	0
General Services Dept.	18
TOTAL	18

4. ACTUAL REVENUE AND EXPENDITURES

According to the P&L concluded on Dec. 31, 2020, the key indicators compared to 2019 are as follows (the amounts are expressed in lei (RON) at the price of the time):

	Year ended December 31, 2020	Year ended, December 31, 2019
Revenue	2,700,355	31,680,061
Cost of sales	(2,423,793)	(40,083,646)
Gross profit	276,562	(8,403,585)
Administration expenses	(25,603,580)	(23,147,806)
Other operating expenses	4,897,497	(52,400,539)
Distribution expenses	(153,718)	(799,740)
Other gains and losses	29,283,851	(19,482,911)
Net income from fixed assets sale	3,666,877	-
Finance costs	(12,336,672)	(14,246,990)
Finance income	3,637	5,543
Profit/Loss before tax	34,454	(118,476,029)
Income tax credit	-	-
Profit/Loss for the year	34,454	(118,476,029)
Other comprehensive income, net of tax		
Gain on revaluation of properties	-	33,503,751
Deferred income tax	-	-
Total comprehensive income	34,454	(84,972,278)

S.C. ELECTROPUTERE S.A.
 REPORT ON FINANCIAL STATEMENTS
 AT DECEMBER 31st 2020
 (all the amounts are considered in Ron, unless otherwise specified)

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

	<u>December 31 2020</u>	<u>December 31 2019</u>
Revenues from sales of goods	410,530	28,557,973
Revenue from commodities	24,610	313
Revenue from rendering of services	637,332	99,778
Other revenues	<u>1,627,883</u>	<u>3,021,997</u>
Total	<u>2,700,355</u>	<u>31,680,061</u>

The Cost of Sales was structured as follows:

COST OF SALES

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Raw materials	132,798	18,705,481
Consumables expenses	133,876	911,793
Packages expenses	-	3,183
Energy, water and gas	564,739	1,571,697
Repairs	15,117	7,959
Staff costs	669,885	12,935,376
Depreciation and amortization related to non-current assets	785,717	3,628,483
Others	-	7
Third party services	68,611	1,805,868
Travel and detachment costs	-	169,353
Postal and telecommunication expenses	-	29,198
Rent	27,799	85,740
Environmental expenses	-	227,499
Entertainment, promotion and advertising	-	2,009
Cost of commodities sold	<u>25,250</u>	<u>-</u>
Total	<u>2,423,793</u>	<u>40,083,646</u>

5. INFORMATION ON COMPANY ASSETS AND LIABILITIES

See below the balance sheet on Dec. 31, 2020 compared to Dec. 31, 2019 and to Dec. 31, 2018 (values are in lei):

ASSETS	<u>31 dec.2020</u>	<u>31 dec.2019</u>	<u>31 dec.2018</u>
Non-current assets			
Property, plant and equipment	220,946,796	226,871,990	228,948,585
Intangible assets	623	636	772,402
Other assets	500,338	2,015,722	1,586,132
	<u>221,447,757</u>	<u>228,888,348</u>	<u>231,307,119</u>

S.C. ELECTROPUTERE S.A.
REPORT ON FINANCIAL STATEMENTS
AT DECEMBER 31st 2020
(all the amounts are considered in Ron, unless otherwise specified)

Total non-current assets			
Current assets			
Inventories	-	-	9,048,052
Trade and other receivables	756,834	7,344,146	51,247,724
Other assets	9,209,239	24,490,418	23,686,261
Cash and cash equivalents	3,327,374	5,572,075	2,730,073
Total current assets	13,293,447	37,406,639	86,712,110
Total assets	234,741,204	266,294,987	318,019,229
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	103,760,291	103,760,291	103,760,291
Reserves	114,806,116	114,806,116	81,302,365
Retained earnings	(492,907,772)	(501,842,770)	(383,366,741)
Total equity	(274,341,365)	(283,276,363)	(198,304,085)
Non-current liabilities			
Borrowings	-	-	-
Retirement benefit obligation LT	-	-	700,668
Other non-current liabilities		2,516,005	3,800,820
Total non-current liabilities	-	2,516,005	4,501,488
Current liabilities			
Trade and other payables	142,438,304	174,910,337	108,813,074
Retirement benefit obligation ST	-	-	131,473
Borrowings	366,005,789	360,858,590	386,016,062
Provisions	245,857	4,767,116	5,262,513
Other current liabilities	392,619	6,519,262	11,598,704
Total current liabilities	509,082,569	547,055,345	511,821,826
Total liabilities	509,082,569	549,571,350	516,323,314
Total equity and liabilities	234,741,204	266,294,987	318,019,229

6. SIGNIFICANT EVENTS DURING 2020

During 2020 the massive personnel restructuring decided by the Board of Directors since 2019 was implemented. Thus, at the end of 2020 company personnel was reduced to 18.

In August 2020, shareholders decided to approve Board of Directors proposal to abolish (close down) MER Division.

In 2020, the Board of Directors started its mission to identify opportunities in order improve the financial situation of the company.

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, 2020, the Company registered an accumulated loss from the previous years in the amount of 492,942,226 RON, negative net assets in the amount of RON 274,341,365, net current liabilities in amount of RON 509,082,569 and the profit for the period then ended amounts to RON 34,454.

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 2020, Electroputere SA Board of Directors consists of 5 members (one position is currently vacant) and majority of its members are non-executive directors. Provisions for managing conflicts of interest are specified in the mandate agreement concluded between the Company and directors.

As of 31.12.2020, 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.

S.C. ELECTROPUTERE S.A.
REPORT ON FINANCIAL STATEMENTS
AT DECEMBER 31st 2020
(all the amounts are considered in Ron, unless otherwise specified)

As of 31.12.2020, 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 2020 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 2020;
- report of the financial auditor on the financial statements of Electroputere S.A., for 2020;
- the separate financial statements of the Company prepared for the financial year 2020;

CHAIRMAN OF THE BOARD OF DIRECTORS
Esmail Mohammed ALSALLOM