Semestrial Consolidated Report at 30 June 2020

ELECTROMAGNETICA SA

Summary

Raportul administratorilor

ELECTROMAGNETICA SA

Director's Report

according to Article 65 of Law no. 24/2017 on issuers of financial instruments and payment operations, and Article 223 and Annex 14 to ASF Regulation no. 5/2018

1. ELECTROMAGNETICA IDENTIFICATION DATA

Date of the report:	**13 August2020**
Company name:	**Electromagnetica SA**
Registered office:	**Calea Rahovei no. 266-268, Sector 5, Bucharest, postal code 050912**
Tel/ Fax:	**021 404 21 02/ 021 404 21 95**
Website	**www.electromagnetica.ro**
Sole Registration Number	**RO 414118**
Reg. no. with the Trade Register Office attached to Bucharest Tribunal:	**J40/19/1991**
Regulated market:	**BVB, Equity securities sector, Shares, Category Premium**
Stock symbol:	**ELMA**
Number of shares:	**676,038,704**
Nominal value:	**0.1000 lei**
Share capital:	**67,603,870.40 lei**

2. COMPANY OVERVIEW

Electromagnetica SA is a Romanian legal entity set up in 1930 and incorporated under the legal form of joint stock company for an unlimited duration, organised and operating under its articles of incorporation, Law no. 31/1991 republished in 2004 and amended by Law no. 441/2006, GEO no. 82/2007 and GEO no. 52/2008, and in accordance with Law no. 297/2004 on the capital market, Law no. 24/2017 on issuers, and ASF Regulation no. 5/2018.

The company share capital is 67,603,870.40 lei divided into 676,038,704 ordinary shares, registered and dematerialised, recorded in electronic account in the shareholder register held by Depozitarul Central SA. According to the company's articles of incorporation, its main object of activity is the manufacture of instruments and appliances for measuring, testing and navigation (NACE code 2651).

Electromagnetica SA, in its capacity of trading company whose shares are admitted to trading on a regulated market (Bucharest Stock Exchange, category Premium, symbol ELMA), has adopted IFRS (the International Financial Reporting Standard) starting with the financial year 2012. The financial statements for S2 2020 were prepared in accordance with the Order of the Minister of Public Finance (OMFP) no. 2844/2016 approving the uniform accounting regulations compliant with the International Financial Reporting Standards adopted by the European Union.

2.1 Mission, vision, values

The **MISSION** of ELECTROMAGNETICA management and employees is to provide high performance products and solutions based on new technologies, in order to satisfy the rising expectation of customers.

Our **VISION** in order to achieve our mission is to develop in particular products deriving from our own research-design activity. By its strategy, ELECTROMAGNETICA aims to expand to complementary fields, with a high potential for growth, which allow us to make better use of our research and development resources and our technological base. At the same time, the company aims at maintaining a high degree of production flexibility, the full or partial outsourcing of certain processes at competitive costs, reinvesting profit, financing mainly from own sources, balanced diversification of activity and risk balancing.

The **VALUES** that define and model permanently the identity of our company and our organizational culture are:

- **Creativity**: we are innovative and we apply constantly the newest technologies and the most appropriate solutions;
- **Business ethics**: is the foundation of our commercial relationships, characterized by honesty,

integrity, communication and mutual trust;

- **Cooperation:** we address proactively the needs of customers by offering them quality products and services that add value for long-term direct and indirect benefits;
- **Accountability:** we act responsibly to protect the environment, the safety, health and personal development of employees in order to create a fair and competitive business environment and to contribute to the social and cultural development of the community;
- **Self-confidence**: we believe that team work, together with our expertise and resources, ensure the strength required to achieve our mission and to secure the sustainable development of the company;
- **Adaptability:** we adapt permanently to market requirements, searching for and discovering new opportunities while remaining constantly focused on the needs and expectations of customers.

2.2 Description of the main activity

Electromagnetica has the following main business lines:

A. PRODUCTS AND SERVICES AIMED AT INCREASING ENERGY EFFICIENCY

B. PRODUCTION FOR OTHER MARKETS

- Plastic injection moulded subassemblies, electrical, electronic and metallic products for the domestic and external market
- Tools and moulds
- Various machining and assembling operations
- Railway traffic safety components for CFR

C. ELECTRICITY PRODUCTION AND SUPPLY

D. REAL ESTATE RENTING AND DEVELOPMENT

Established in 1930, Electromagnetica manufactures products of its own conception, designed and developed by its research and development team, but it also works on orders to make metal and injection moulded plastic subassemblies, electrical switchgear, tools and mods.

The Company has developed since 2010 its own concepts of LED lighting units and systems and now it is in a position to offer a wide range of products for street, industrial, commercial and residential lighting. The LED lighting products represent the highest share of Electromagnetica production, the Company being the main domestic producer.

Plastic injection remains an important component of production and export, together with the electrical switchgear manufactured for renowned companies such as ABB. The railway traffic safety components are also classical products of the Company portfolio.

The production facilities of the company are mainly located at its headquarters in Calea Rahovei 266-268, sector 5, Bucharest, except for the facilities producing energy from renewable sources which are located in Suceava river basin, Radauti area, over approximately 70 km.

The Company owns a metrology laboratory (where the meters of distribution operators are verified as well), and an electromagnetic compatibility laboratory (accredited by RENAR) where the performance of LED lighting devices is evaluated and validated, and a technical lighting laboratory.

A parallel concern was to take full profit of the Company real estate by fitting out and renting surplus premises which underwent important modernization. The production of electricity takes place in 10 micro-hydroelectric plants located in Suceava county.

3. RELATED PARTIES AND TRANSACTIONS WITH RELATED PARTIES

The group of companies within which Electromagnetica SA is the parent company includes Procetel SA, Electromagnetica Goldstar SRL, Electromagnetica Fire SRL and Electromagnetica Prestserv SRL. Between Electromagnetica and the companies part of the group there are contracts in progress covering the provision of various services for the parent company (similar to the previous year), mainly outsourcing of monthly activities (fire prevention and extinguishing, cleaning). In 2020, there were no changes in the shareholding structure of the controlled companies.

Electromagnetica's share within the group is reflected in section 15, which presents information about the consolidated profit or loss.

4. IMPORTANT EVENTS

4.1 Reporting according to Law 24/2017 and ASF Regulation 5/2018

In accordance with the legislation specific to the capital market, the company reported to ASF, BVB and on its own website all the significant information:

PUBLICATION DATE	WITH REFERENCE TO	DESCRIPTION
30/01/2020	Transactions with related parties exceeding 50,000 EUR	Information on the conclusion with Electromagnetica Prestserv SRL of an addendum to the cleaning and maintenance service contract
21/02/2020	Publication of preliminary financial results	Preliminary financial results in English and Romanian, available at: www.bvb.ro symbol ELMA and www.electromagnetica.ro
26/03/2020	Publication of proposals for 2019 dividends	The Board of Directors of ELECTROMAGNETICA SA submits to the Ordinary General Meeting of Shareholders (AGOA) the following distribution of net profit, amounting to 4,488,687 lei, recorded by the company in 2019: - legal reserves - 249,060 lei; - own sources of funding, considering the investment objectives to be carried out in 2020 and the policies on sales under supplier credit terms for lighting systems - 1,535,472 lei; - dividends - 2.704,155 lei The gross dividend/share due to shareholders shall be 0.004 lei/share
26/03/2020	AGOA and AGEA convening notice	The Ordinary General Meeting of Shareholders and the Extraordinary General Meeting of Shareholders were convened for 28/29 April 2020. Publication of the convening notice, available at: www.bvb.roand www.electromagnetica.ro
28/04/2020	Conduct of AGOA and AGEA	
29/04/2020	Publication of AGOA and AGEA resolutions	AGOA and AGEA resolutions in Romanian and English available at: www.bvb.ro ELMA symbol and www.electromagnetica.ro
30/04/2020	Publication of additional auditor's report on financial statements	Additional report available at: www.bvb.ro ELMA symbol and www.electromagnetica.ro
30/04/2020	Publication of 2019 Annual Report	Annual Report available at: www.bvb.ro ELMA symbol and www.electromagnetica.ro
15/05/2020	Publication of Quarter 1 2020 Report	Quarter 1 2020 Report available at: www.bvb.ro ELMA symbol and www.electromagnetica.ro
30/07/2020	Publication of Auditor's Report according to Article 82 of Law no. 24/2017	The Report available at: www.bvb.ro ELMA symbol and www.electromagnetica.ro confirms the correctness of Electromagnetica's reporting on transactions with related parties (published on 30.01.2020)

4.2 Other Important Events

During S1 2020, the main event with significant impact on the activity of the Company was the outbreak of the COVID 19 pandemic. This event resulted, among others, in decreased orders, delays in raw materials supply, additional expenses to comply with the infection prevention measures.

Electromagnetica made every effort to continue its activity safely and to honour its commitments, while complying with the legislation specific to the state of emergency and alert, by taking the measures recommended by the occupational physicians. .

A part of the Company employees work from home in turns. Specific procedures for access and activities in the premises were adopted for both employees and tenants, including epidemiological triage. We have purchased equipment and supplies to prevent and counteract spreading of the virus (thermal scanners, disinfectants, masks, visors, gloves). We also started to test employees under the guidance and coordination of the occupational physician.

5. INVESTMENTS

With the aim to maintain a high technical standard, to increase production capacity and work productivity, we purchased in S1 2020 energetic/technological equipment worth 190,000 EUR, 18 % less than in S1 2019.

6. OVERALL EVALUATION ELEMENTS

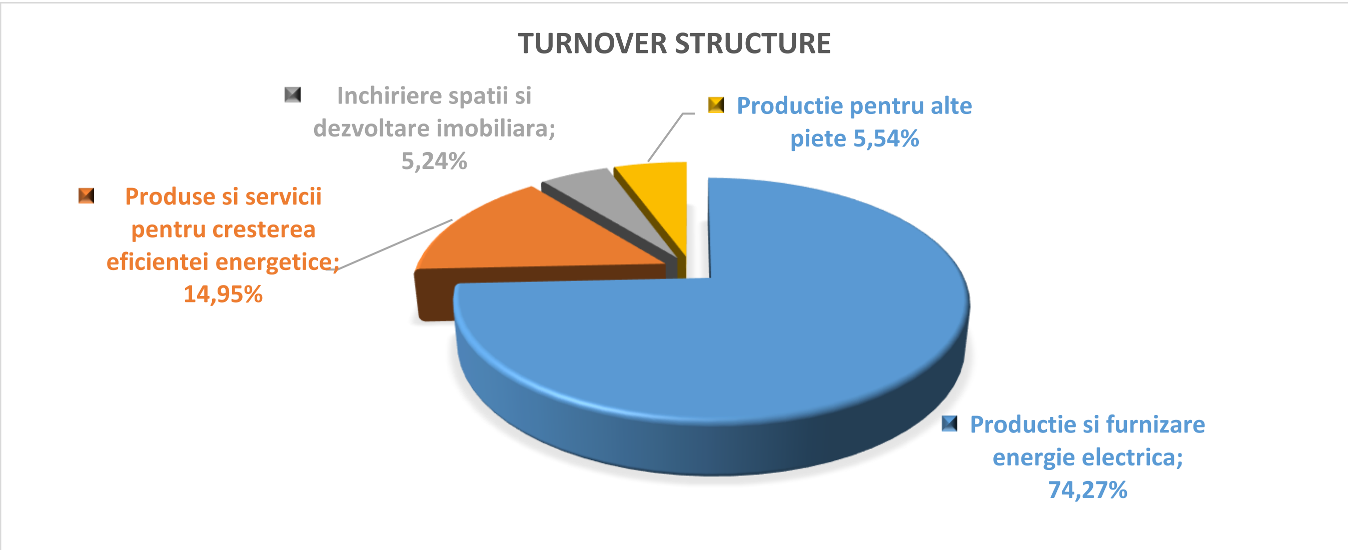
Specification	1st semester 2020	1st semester 2019
Total revenue (lei)	175,143,351	126,810,108
Total expenses (lei)	173,502,072	117,596,192
Gross profit (lei)	2,127,691	9,213,916
Net profit (lei)	1,641,279	8,160,001
EBITDA margin (%)	4.68	7.69
EBIT margin (%)	1.20	3.80
Net profit ratio (%)	0.99	6.43
Current liquidity (%)	195	204
Capital solvency (%)	81	82
ROE (%)	0.49	2.40
Accounts receivable collection period (days)	93	112
Supplier payment period (days)	61	95
Average active employee headcount	413	467

The Company recorded operating profit and good capital solvency. Revenues from supply/trading increased significantly; however, the net profit ratio decreased to 0,99 %.

Increased revenues as compared to the same period of the previous year were also recorded for: Moulds (+50,81 %), Rent (+7,15 %) and Traffic Safety Elements (+ 2,06 %) . The most important decreases were recorded for electrical switchgear (-11,06%) and electricity production (-35,75 %) as rainfall was lower than in previous years.

7. ACTIVITY EVALUATIONS FOR THE MAIN PRODUCTS AND SERVICES. FORECASTS FOR 2ND SEMESTER 2020

7.1. TURNOVER STRUCTURE



7.2. PRODUCTS AND SERVICES AIMED AT INCREASING ENERGY EFFICIENCY

7.2.1. LED lighting bodies, systems and solutions

The production of LED lighting items represents an important extent in the turnover of the Company (11.84%) being the most important component of the company merchandise production activity (with a weight of about 57.78 %). The trend of 2020 is represented by the provision of solutions that should make possible the permanent control of light and monitoring of electric parameters. The LED lighting items are integrated in modern lighting management systems made up of the Energsys system, system dimming, surveillance camera that adjusts lighting subject to the car traffic and VE loading stations.

This year, our company participates constantly in the calls for tenders under the EU funding Regional Operational Programme. We will also participate in the design and implementation phases of the energy efficiency programmes funded via the Environmental Fund Administration. Electromagnetica is prepared for both programmes having available both specialised technical staff and high performance technical equipment for tendering, lighting devices and remote management systems.

Starting from 2019 and continuing in 2020, calls for tenders have been conducted for both concessions and AFM-funded for electric vehicles charging stations in the design and/or implementation phases, organised by CNAIR and by county seat municipalities. For this type of works, Electromagnetica has developed charging stations designed and manufactured in its plants, as well as the management and payment software developed by its in-house team of programmers.

A remarkable achievement of ELECTROMAGNETICA is the night lighting system of Craiova athletic arena. It is a first for our country due to the AQUILLA LED lighting system designed and manufactured by Electromagnetica and controlled via DMX, enabling computerized light adjustment depending on needs. This lighting system has three advantages: electricity savings, service life and uniform light, all of which are significantly superior to traditional solutions.

7.2.2. Charging stations for electric vehicles

The fast-charge station for electric vehicles has been completed. 50KW direct current charging power of vehicles over two connector types, CCS+CHADEMO, and 22 KW alternate current charging power with type2 connector. The station can charge simultaneously 2 vehicles (one in DC and one in AC or two in DC). The station is equipped with OCPP protocol which allows to implement the charging station management software developed by ELECTROMAGNETICA - ELMotion.

We are currently working on an upgrade to implement the 150 kW fast-charge station.

Starting from 2019 and continuing in 2020, calls for tenders have been conducted for both concessions and AFM-funded for electric vehicles charging stations in the design and/or implementation phases, organised by CNAIR and by county seat municipalities.

7.2.3. Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB) represents an element of continuity and stability in the production intended for export (64% of total production). The values in S1 2020 are close to those in S1 2019, due to firm orders and the recognition of the quality of our products. Most of this activity is automated and robotised.

7.3. PRODUCTION FOR OTHER MARKETS

7.3.1. Plastic injection and moulds

Electromagnetica benefits from a wide range of technologies, which enables the Company to manufacture plastic injection moulded subassemblies for both the internal market and export. The Company currently owns a fleet of injection machines and serves customers in the sector of auto parts and manufacturers of electrical equipment and devices.

The production of plastic injection moulded subassemblies and moulds increased by 17.74% as compared to the same period in 2019. This group of products has the second largest share of the exports of the Company, i.e. 16.81% of total exports. The production of plastic injection moulded subassemblies also benefits from the on-site manufacture and repair of the moulds.

7.3.2. Railway traffic safety components

The sales of railway traffic safety components were relatively stable (+ 2%) due to constant orders from renowned companies such as ALSTOM, SIEMENS, who are working on the maintenance and modernization of CFR infrastructure. The future evolution of this product category broadly depends on the timetable for the modernization of the railway infrastructure.

7.4 ELECTRICITY PRODUCTION AND SUPPLY

7.4.1. Production of electricity from renewable sources

Energy production is a field governed by ANRE, the company holding the license of producer since 2007. Approximately 40% of the need for green certificates required to supply energy were assured by the green certificates related to its own energy production.

In S1 2020 due to the extreme draught that affected the entire territory of Romania electricity production decreased significantly as compared to the average of the last years and generated revenues lower by 36% than in S1 2019.

7.4.2. Electricity supply activity

The supply of electricity is regulated by ANRE. The Company has been an authorized supplier since 2001; in 2013 the license was renewed for another 10 years, under the provisions of the new energy law (Law no. 123/2012). In 2020, energy prices decreased compared to 2019, the main factor being the decreased consumption as of Q2 due to the COVID-19 pandemic and the energy in excess on the market. Decreased consumption by end customers was compensated by an increase in the trading activity on the wholesale energy market, therefore, overall, the turnover from the supply activity increased by more than 100% as compared to the same period in 2019.

7.5 REAL ESTATE RENTING AND DEVELOPMENT

Electromagnetica manages approximately 33,000 square meters of premises to be leased in Bucharest and 3,500 square meters in Varteju, Ilfov county. At 30.06.2020, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 92.78%, lower by 5% than in the same period of the previous year, while the average rental price was 7.55 euro/square meter, as compared to 7.03 euro/square meter in the previous year. For the premises in Varteju commune (Magurele), the level of occupation was 73.86% as compared to 100% in the same period of the previous year, while the average rental price was 1.75 euro/square meter, as compared to 2.03 euro/square meter in 2019. The rental level decreased due to the economic crisis caused by the pandemic, but much less than the vacancy rate in Bucharest, estimated at 12-13%. The price per square meter increased as a result of negotiations at the end of the previous year. At 30 June 2020, the structure of rentable premises by their destination was as follows:

Considering the increased offer of modern rentable premises, including in the Electromagnetica Business Park area, the expectations of tenants increased in terms of the quality of rented premises and facilities offered. To attract customers and differentiate from other buildings for rent, Electromagnetica ensured (together with other companies) cafeterias and provided tenants (and not only) with charging stations for electric vehicles.

Even under the difficult conditions occurred especially in the 2nd quarter, when many tenants requested payment delays, the Company managed to maintain a high occupancy level (92.78 %) and to increase turnover by 7.15 % as compared to S1 2019.

For S2 it is expected to launch for the locations in George Georgescu street no. 26 sector 4 and Mitropolit Filaret street no. 35-37 sector 4 the design of mixed residential and office buildings.

8. EVALUATION OF THE SOURCING ACTIVITY

The sourcing of raw materials and other materials was mainly based on firm projects contracted by the Sales Department and there were no interruptions in the sourcing process that could affect the achievement of the production plan.

The sources for production supplies are reliable, suppliers being selected based on technical and commercial performance criteria and being assessed annually, with the permanent aim to ensure the delivery of quality products on time.

There are alternate suppliers for every material so that sourcing reliability does not depend on the relationship with a certain supplier.

The sourcing prices of raw materials and other materials for the main production sectors: plastic injection and manufacturing of LED lighting bodies were stable and maintained at the level of 2019, despite the crisis resulted from the Covid-19 pandemic.

Import volume was higher than in the previous year due to the purchase of smart lighting systems, most projects having specific requirements for equipping with lighting remote management, monitoring and control products.

For S2 2020, we intend, based on forecasts and firm projects, to ensure materials under the same quality and technical terms by identifying opportunities to purchase at advantageous prices.

9. EVALUATION OF ASPECTS RELATED TO COMPANY EMPLOYEES

The high qualification level of employees enabled the Company to carry out both production and research and development activities. In the first semester of 2020, the average number of employees was 413, by 9% lower than the average number of employees in the previous year. Even under the difficult conditions due to COVID 19, which decreased the number of received orders, Electromagnetica tried to maintain its human resources. The persons who left the company were of or near to the retirement age, while for the other employees it was decided that they were to work 4 days a week. Among these, there are 37.5% employees with higher education and 35% with secondary education Company employees follow a continuing vocational training program, each of them benefiting annually from internal and external professional training on quality, occupational health and safety, environment protection etc. In S1 2020 there were no new cases of occupational disease and no events with a major impact on human health and safety. The management and employees interact in normal conditions. The unionisation rate is of approximately 65% and there were not labour conflicts between the management and the union.

Given the situation generated by the COVID-19 pandemic, three decisions were applied within Electromagnetica to prevent effects on the smooth conduct of Company business. At the same time, the occupational physician conducted trainings on “How to prevent infection with coronavirus (2019-nCoV)” at all the work places across the Company. The employees were informed permanently about legislative amendments and updates to the list of coronavirus affected areas, published by the Romanian National Health Institute, and benefited from time off upon request, according to Law no. 19/2020. As an additional employee protection measure, in certain cases employment contracts were amended to work from home or telework terms.

10. COMPANY ACTIVITY IMPACT ON THE ENVIRONMENT

We are fully compliant with the requirements of our Integrated Management System and continually improve its effectiveness, establishing, monitoring and reviewing our objectives. As a responsible organization, we aim to offer trust to our partners and consider that Quality, Health and Safety at work, as well as the Environment are important issues integrated in the culture of our Company.

The Company holds all the environmental permits required under the law for its business and has in place an Environmental Management System compliant with SR EN ISO 14001:2015. The Company does not carry out activities with significant impact on the environment and there are no litigations related to breaches of the legislation on environmental protection.

We invite our staff, contractors and suppliers to actively participate in the fulfilment of our objectives concerning Quality of operations, Health and Safety at work, plus the Environment, through the implementation of all the relevant regulations and programs adopted.

The Company carries out an effective environmental risk control, implementing and complying with the waste management procedures, emergency procedures, production retrofitting, designing and testing new environmental-friendly products, standardizing and optimizing products. One of the research and development objectives is to implement new energy-efficient and less polluting manufacturing technologies and launch new products with reduced environmental impact during their service life. The production of electricity from renewable sources in micro-hydro power plants is considered an activity which has no impact on the environment.

Considering that certain low power hydro power plants are located in the network of Natura 2000 protected areas, in order to obtain the environmental permit, we have requested and obtained the custodian’s approval. The ecological network “Natura 2000” – the European ecological network of protected natural areas – includes areas of special protection of aquatic fauna, determined in accordance with Directive 79/409/EEC on the conservation of wild birds, and special conservation areas designated by the European Commission, and in accordance with Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora. Natura 2000 is not a system of strictly protected reserves. Human activities are permitted to the extent they allow the conservation of the species or habitats

11. RISKS AND UNCERTAINTY FACTORS

The situation created by the COVID 19 pandemic amplified current risks and generated new ones. We detail below the important and immediate risks, while the other ones (such as political and regulatory risk, risk of sanctions, risk related to data protection and processing) remain those mentioned in the annual report.

Market risk

With regard to orders for products (including LED lighting systems), we foresee a reduction in direct orders, as well as an increase in public procurement procedures, especially for public street lighting. At the same time, electricity consumers supplied by Electromagnetica will maintain a relatively low consumption compared to the same period of 2019

Among the markets where Company is present, the energy market has the highest price risk, considering the volatility of prices on the Day ahead market and the Balancing market.

Risk of default

It is high as our customers are facing similar issues and the extension of the state of alert allows, on the one hand, delays in the payments of consumers who hold emergency certificates and does not allow, on the other hand, to disconnect consumers. We are still exposed to the risk of supplier credit contracts where payment is made over a longer term (up to 5 years).

As part of our constant efforts to reduce the risk of default, we are conducting a thorough precontractual analysis by collecting data about partners on platforms such as RISCO or COFACE.

Liquidity and cash flow risk

The company cash flow department requires forecasts on the liquidity reserve and maintaining the appropriate level of credit facilities in order to be able to prudently manage the liquidity and cash flow risks. The Company has open credit lines and letters of bank guarantee within the limit of 40% from the total of fixed assets, less receivables, making possible for the company to honour its obligations in case of short-term cash deficits. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover. The liquidity and cash flow risk management policy must be adapted to the new and more exigent commercial practices.

Risk related to the lack of skilled human resources

Although the COVID 19 pandemic generated important redundancies, the company is still confronted with the lack of skilled personnel.

12. INVESTMENTS EXPECTED IN 2020

Investments will continue to be focused on the modernization of real estate assets (units 37, 38 and 38A of ELECTROMAGNETICA BUSSINES PARK), the purchasing of technological equipment and moulds and the design/development of new greenfield projects on the land owned by the Company outside the main offices (Electromagnetica Business Park). For the owned land (Moara Vlasiei, Sat Caciulati) a ground survey was contracted, to be completed with a report suggesting appropriate crops.

13. SECURITIES MARKET

13.1 Shareholder structure as at 30.06.2020

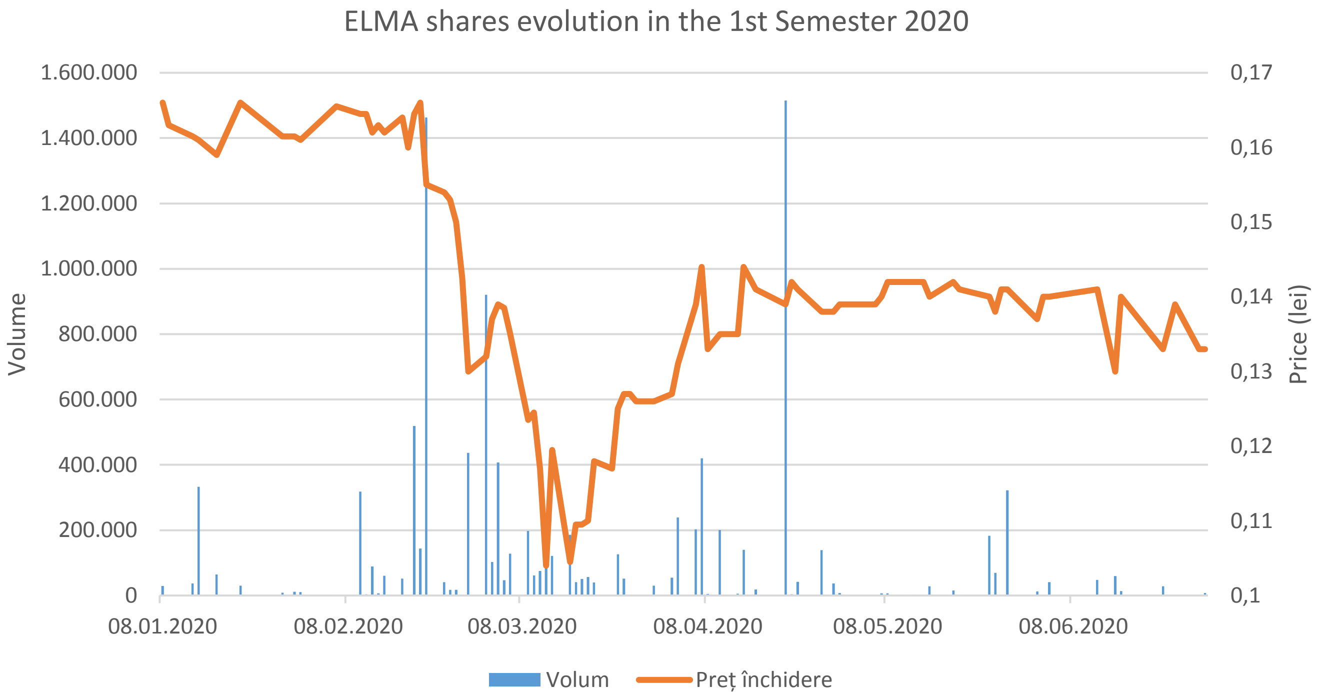
At 30.06.2020, the Company had 6,186 shareholders. According to the records of Depozitarul Central, the summary structure is as follows:

Shareholder	Ownership	No. of shares
SIF Oltenia SA	26.1402 %	176,717,594
PAS Electromagnetica	25.3069 %	171,084,540
Individuals	36.8992 %	249,453,176
Legal persons	11.6537 %	78,783,394
TOTAL	100.0000 %	676,038,704

13.2 Share price evolution

Electromagnetica is listed on the Bucharest Stock Exchange, Premium Category, with the following trading characteristics:

Stock symbol: ELMA
Ordinary, nominative, dematerialised shares
Number of issued shares: 676,038,704
Nominal value: 0.1000 lei
Share capital: 67,603,870.40 lei
ISIN code ROELMAACNOR2
Code LEI: 254900MYW7D8IGEFRG38
ELMA shares are part of the stock indices: BET Plus, BET- BK, BET- XT and BET-XT-TR



In S1 2020 there were traded shares representing 1.527 % of the total number of shares, adding up to 2.16 % of the Company share capital, for an average price of 0.1414 lei/share. The reference price varied between minimum 0.1040 lei/share and maximum 0.1660/share. The closing price at the end of S1 was 0.133 lei/share corresponding to a market capitalisation of 89,913,147.632 million lei.

There were no changes to shareholders' rights.

14. FINANCIAL STATEMENTS
(all amounts are expressed in lei, unless otherwise specified)

14.1. Separate financial position

	30 June 2020	30 December 2019
ASSETS		
Non-current assets		
Property, plant and equipment	273,959,959	277,545,153
Investment property	5,182,279	5,182,279
Intangible assets	381,489	466,487
Investments in related entities	3,967,606	3,967,606

	30 June 2020	30 December 2019
Other long-term non-current assets	23,534,561	24,702,276
Assets related to rights of use	2,075,480	1,480,078
Total non-current assets	**309,101,373**	**313,343,879**
Current assets		
Inventories	16,459,254	15,411,327
Trade receivables	62,545,161	55,114,158
Cash and cash equivalents	19,587,503	21,711,183
Other current assets	2,531,255	1,939,782
Current tax assets	625,075	760,012
Total current assets	**101,748,248**	**94,936,464**
Total ASSETS	**410,849,620**	**408,280,342**
EQUITY AND LIABILITIES		
Equity		
Share capital	67,603,870	67,603,870
Reserves and other equity equity	177,315,020	176,697,881
Retained earnings	89,622,047	91,301,725
Total equity attributable to company's shareholders	**334,540,938**	**335,603,476**
Non-current liabilities		
Trade payables and other liabilities	1,459,643	1,265,003
Investment subsidies	4,352,593	4,410,306
Deferred tax liabilities	17,035,186	17,333,187
Leasing debts	1,186,233	728,164
Total non-current liabilities	**24,033,656**	**23,736,660**
Current liabilities		
Trade payables and other liabilities	49,608,290	46,268,240
Investment subsidies	163,219	163,219
Provisions	1,596,055	1,806,142
Current income tax liabilities		
Leasing debts	907,463	702,605
Total current liabilities	**52,275,027**	**48,940,206**
Total liabilities	**76,308,683**	**72,676,866**
Total EQUITY AND LIABILITIES	**410,849,620**	**408,280,342**

14.2. Separate profit and loss result

	30 June 2020	30 June 2019
Revenues	**165,311,238**	**108,845,151**
Investment income	788,529	833,770
Other net income	1,775,329	3,497,912
Changes in inventories of finished goods and work in progress	4,706,158	10,565,451
Own work capitalized	821,628	380,417
Raw material and consumables used	(132,589,951)	(73,672,219)
Employee-related expenses	(15,711,378)	(18,299,198)
Expenses related to depreciation and impairment	(5,633,895)	(18,299,198)
Other expenses	(16,914,383)	(17,387,678)
Financial expenses	(425,584)	(377,425)
Profit before tax	**2,127,691**	**9,213,916**
Income tax	(486,412)	(1,053,915)
Profit for the period	**1,641,279**	**8,160,001**

14.3. Separate Cash Flow:

	30 June 2020	30 June 2019
Net cash used in operating activities	(3,350,146)	1,400,194
Net cash used in investment activities	227,861	551,769
Net cash used in financing activities	1,178,605	(2,922,089)
Net decrease cash and cash equivalents	(2,123,680)	(970,126)
Cash and cash equivalents at beginning of period	21,711,183	29,162,314
Cash and cash equivalents at end of period	19,587,503	28,192,188

Credit lines were used in the first half of the year more than in the same period of 2019, being used as working capital for short periods.

15. INFORMATION ON CONSOLIDATED PROFIT OR LOSS:

In S1 2020 there were no changes in the participation of Electromagnetica in its subsidiaries (Electromagnetica Goldstar SRL, Procetel SA, Electromagnetica Fire SRL and Electromagnetica Prestserv SRL) or in their management structures.

The companies controlled by Electromagnetica have a small influence on gross profit following consolidation because the transactions they carry out are mostly with the parent company.

	Group	Parent company	
	30 June 2020	30 June 2020	%
Non-current assets	314,883,835	309,101,373	98.16
Current assets	108,216,516	101,748,248	94.02
Equity attributable to company's shareholders	345,403,769	334,540,938	96.86
Non-current liabilities	23,959,511	24,033,656	100.31
Current liabilities	51,480,522	52,275,027	101.54
Profit before tax	1,535,135	2,127,691	138.60
Profit for the period	1,028,658	1,641,279	159.56

16. Financial Reporting Calendar for S2 2020:

14 August 2020: Presentation of Semestrial Report - financial results S1 2020
13 November 2020: Presentation of Quarterly Report - financial results Q3 2020

More information about the activity of Electromagnetica, including information of interest for investors are available on the company website www.electromagnetica.ro. Details about the social and personnel policy, the occupational health and safety policy, the environment policy, and the related risks and key performance indicators are available in the Non-Financial Statement for 2019.

BoD Chairman / Managing Director
Eugen Scheusan

Chief Financial Officer
Cristina Florea

ELECTROMAGNETICA SA

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6-MONTH PERIOD ENDED ON 30 JUNE 2020 (NOT AUDITED)

Drawn up according to
Order no. 2844/2016 of the Minister of Public Finance approving the Accounting Regulations pursuant to the International Financial Reporting Standards adopted by the European Union

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

	Note	6-month period ended on 30 June 2020	6-month period ended on 30 June 2019
Revenues	**19**	**165,894,420**	**109,382,152**
Investment income	**19**	151,284	175,284
Other net income and expenses	**19**	2,057,993	3,626,604
Changes in inventories of finished goods and work in progress	**19**	4,706,126	10,565,235
Own work capitalized	**19**	821,628	380,417
Raw material and consumables used	**20**	(132,822,552)	(73,916,931)
Employee-related expenses	**23**	(17,333,018)	(19,268,272)
Expenses related to depreciation and impairment	**20**	(5,229,487)	(4,707,371)
Other expenses	**20**	(16,307,995)	(17,041,865)
Financial expenses	**21**	(403,263)	(391,149)
Profit before tax		**1,535,135**	**8,804,104**
Income tax	**22**	(506,478)	(1,066,192)
Profit for the period		**1,028,658**	**7,737,912**
Distributable to the parent		1,028,658	7,723,140
Distributable to non-controlling interests		(16,541)	14,772
Other comprehensive income:			
of which:		-	-
other comprehensive income items that cannot be reclassified in the profit and loss account, of which:		-	-
- restatement of deferred tax for revaluation of assets written off		338	-
Comprehensive income for the period		**1,012,455**	**7,737,912**

These interim consolidated financial statements were approved for disclosure by the management at 13 August 2020.

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Chief Financial Officer

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

	Note	30 June 2020	31 December 2019
ASSETS			
Non-current assets	**4**	281,301,789	285,087,505
Property, plant and equipment	**5**	9,445,159	9,445,159
Investment property	**6**	380,667	465,370
Intangible assets	**8**	23,542,238	24,702,276
Investments in related entities	**7**	213,981	248,301
Total non-current assets		**314,883,835**	**319,948,611**
Current assets			
Inventories	**9**	16,750,061	15,968,258
Trade receivables	**10**	62,491,440	55,226,009
Cash and cash equivalents	**11**	23,682,951	26,219,735
Other current assets	**12**	2,676,767	1,971,163
Current tax assets	**22**	615,296	749,083
Total current assets		**106,216,516**	**100,134,248**
Total assets		**421,100,350**	**420,082,859**
EQUITY AND LIABILITIES			
Equity			
Share capital	**13**	67,603,870	67,603,870
Reserves and other equity	**14**	179,996,692	179,413,164
Retained earnings	**15**	97,803,207	100,076,893
Total equity attributable to company's shareholders		**345,403,769**	**347,093,926**
Non-controlling interests		256,548	273,089
Total non-current liabilities		**345,660,317**	**347,367,015**
Current liabilities			
Trade payables and other liabilities	**18**	1,459,643	1,265,003
Investment subsidies	**16**	4,352,593	4,410,306
Provisions	**22**	17,993,532	18,291,532
Current income tax liabilities	**7**	153,743	187,278
Total datorii pe termen lung		**23,959,511**	**24,154,119**
Datorii curente			
Datorii comerciale și alte datorii	**18**	49,655,234	46,528,679
Subvenții pentru investiții	**16**	163,219	163,219
Provizioane	**17**	1,596,055	1,830,832
Datorii de leasing	**7**	66,014	38,995
Total current liabilities		**51,480,522**	**48,561,725**
Total liabilities		**75,440,033**	**72,715,844**
Total equity and liabilities		**421,100,350**	**420,082,859**

These interim consolidated financial statements were approved for disclosure by the management at 13 August 2020.

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Chief Financial Officer

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

	Note	6-month period ended on 30 June 2020	6-month period ended on 30 June 2019
Cash flows from operating activities			
Cash receipts from customers		156,551,704	117,318,397
Payments to suppliers		(128,657,622)	(83,264,336)
Payments to employees		(18,722,099)	(20,226,687)
Other operating activities		(11,808,092)	(11,430,377)
Cash generated by/ (used in) operating activities		**(2,636,109)**	**2,396,997**
Interests paid		(20,562)	(4,726)
Income tax paid		(670,532)	(687,101)
Net cash used in operating activities		**(3,327,025)**	**1,505,170**
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(560,468)	(379,143)
Interest received		164,130	304,774
Proceeds from sale of non-current-assets		7,973	-
Net cash used in investing activities		**(388,365)**	**(74,369)**
Cash flows from financing activities:			
Cash proceeds from loans		33,568,271	4,642,579
Cash repayments of amounts borrowed		(31,708,536)	(4,642,579)
Paid leasing		(632,538)	(604,594)
Interests paid		(42,047)	-
Dividends paid		(6,546)	(2,271,961)
Net cash used in financing activities		**1,178,605**	**(2,876,555)**
Net decrease cash and cash equivalents		**(2,536,784)**	**(1,445,755)**
Cash and cash equivalents at beginning of period	**12**	**26,219,735**	**33,786,175**
Cash and cash equivalents at end of period	**12**	**23,682,951**	**32,340,420**

These interim consolidated financial statements were approved for disclosure by the management at 13 August 2020.

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Chief Financial Officer

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

	Share capital	Retained result	Tangible assets revaluation reserve	Other reserves	Legal reserve	Non-controlling interests	Total equity
Balance at 01 January 2020	**67,603,870**	**100,076,893**	**96,320,962**	**63,389,766**	**19,702,434**	**273,089**	**347,367,013**
Comprehensive income for the period:							
Profit of the period	-	1,028,658	-	-	-	(16,541)	1,012,117
Other comprehensive income:							
Setup of legal reserve	-	(249,060)	-	103,952	145,108	-	-
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets or written off assets	-	1,231,282	(1,231,282)	-	-	-	-
Deferred tax recognized in equity	-	-	338	-	-	-	338
Transfer of the retained earnings to reserves	-	(1,565,451)	-	1,565,451	-	-	-
Total comprehensive income for the period	**-**	**445,429**	**(1,230,944)**	**1,669,403**	**145,108**	**(16,541)**	**1,012,455**
Transactions with shareholders, directly registered to equity							
Distributed dividends	-	(2,704,155)	-	-	-	-	(2,704,155)
Other items	-	(14,960)	-	(38)	-	-	(14,998)
Balance as at 30 June 2020	**67,603,870**	**97,803,207**	**95,090,018**	**65,059,131**	**19,847,542**	**256,548**	**345,660,317**

These interim consolidated financial statements were approved for disclosure by the management at 13 August 2020.

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Chief Financial Officer

ELECTROMAGNETICA SA
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 6-MONTH PERIOD ENDED ON 30 JUNE 2020
(all the amounts are expressed in RON, unless otherwise specified)

	Share capital	Retained result	Tangible assets revaluation reserve	Other reserves	Legal reserve	Non-controlling interests	Total equity
Balance as at 1 January 2019	**67,603,870**	**96,786,264**	**99,575,840**	**61,957,912**	**19,453,374**	**250,450**	**345,627,709**
Comprehensive income for the period							
Profit of the period	-	7,737,912	-	-	-	(8,614)	7,729,298
Other comprehensive income:	-	-	-	-	-	-	-
Setup of legal reserve	-	-	-	(500,017)	500,017	-	-
Deferred tax recognized in equity	-	-	-	-	-	-	-
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets or written off assets	-	1,398,841	(1,398,841)	-	-	-	-
Transfer of the retained earnings to reserves	-	(2,208,403)	-	2,208,403	-	-	-
Total comprehensive income for the period	**-**	**6,928,350**	**(1,398,841)**	**1,708,386**	**500,017**	**(8,614)**	**7,729,298**
Transactions with shareholders, directly registered to equity							
Distributed dividends		(2,704,155)					(2,704,155)
Other items	-	(145,927)	(215,726)	130,997	-	-	(230,656)
Balance as at 30 June 2020	**67,603,870**	**100,864,532**	**97,961,273**	**63,797,295**	**19,953,391**	**241,836**	**350,422,196**

These interim consolidated financial statements were approved for disclosure by the management at 13 August 2020.

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Chief Financial Officer

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

1. GENERAL INFORMATION ON THE GROUP

Electromagnetica SA – parent company – is a Romanian legal entity incorporated under the legal form of joint-stock company for an unlimited duration, organised and operating under its articles of incorporation, Law no, 31/1991 republished in 2004 and amended by Law no, 441/2006, Government Emergency Ordinance (GEO) no, 82/2007 and GEO no, 52/2008, and Law no, 297/2004 on the capital market. The registered office of the company is in Bucharest, Calea Rahovei no, 266-268, sector 5, Bucharest, Romania, postal code 64021, telephone 021,404,21,31, 021,404,21,02, fax 021,404,21,95, website www,electromagnetica,ro, Tax ID Code RO 414118, registration number with the Trade Register J40/19/1991. The company share capital is RON 67,603,870,40 divided into 676,038,704 ordinary shares, registered and dematerialised, recorded in electronic account in the shareholder register held by Depozitarul Central SA. According to the company's articles of incorporation, its main object of activity is the manufacture of instruments and appliances for measuring, testing and navigation (NACE code 2651).

SC Electromagnetica Goldstar SRL – operated as a Romanian-Korean joint venture until 2011, when SC Electromagnetica took over under a share assignment the entire equity held by the Korean partners and become the sole shareholder of this company. It is a limited liability company with registered office in Bucharest, Calea Rahovei no, 266-268, sector 5, registration number with the Trade Register J40/12829/1991, Tax ID 400570; its main object of activity is the manufacture of communication equipment (NACE code 2630).The company also carries out service and warranty activities for communication equipment and real estate renting activities.

SC Electromagnetica Fire SRL is a limited liability company with registered office in Bucharest, Calea Rahovei no, 266-268, sect, 5, corp 2, parter, axele C-D, stalpii 6 ½ - 7, registered with the Trade Register Office attached to Bucharest Tribunal under no, J40/15634/2006, Tax ID 19070708, which carries out activities pertaining to fire protection, technical assistance for fire prevention and extinction and private emergency services for civil protection (NACE code 8299).

SC Electromagnetica Prestserv SRL is a limited liability company with registered office in Calea Rahovei no, 266-268, sector 5, corp 1, etaj 2, axele A-B, stalpii 1-2, registered with the Trade Register Office attached to Bucharest Tribunal under no, J40/1528/2003, Tax ID 15182750, which provides cleaning services (NACE code 4311).

SC Electromagnetica Prestserv SRL and **SC Electromagnetica Fire SRL** were set up through the outsourcing of certain services within SC Electromagnetica SA, namely cleaning services, technical assistance services for fire prevention and extinction, private emergency services for civil protection.

SC Procetel SA is a joint-stock company with registered office in Bucharest, Calea Rahovei 266-268, registration number with the Trade Register J40/10437/1991, Tax ID 406212, tel,: 031,700,26,14, fax: 031,700,26,16, SC Procetel SA is an unlisted joint-stock company (its shares are not traded on the stock exchange) and its main object of activity is other research and experimental development on natural sciences and engineering (NACE code 7219), Currently, its research activity is significantly diminished and its results mainly derive from its real estate renting activities.

Statement of interest in subsidiaries

Name of subsidiary	No, of securities	Ownership and voting right percentage	Value
Electromagnetica Goldstar SRL	2,650	100%	3,126,197
Electromagnetica Prestserv SRL	295	98.333%	29,500
Electromagnetica Fire SRL	799	99.875%	79,900
Procetel SA	42,483	96.548%	732,008
TOTAL			**3,967,606**

During the reporting period, there were no changes in the shareholding structure of the subsidiaries.

1. GENERAL INFORMATION ON THE GROUP (continued)

The structure of the administrative and executive management of subsidiaries is as follows:

a) Electromagnetica Goldstar SRL

Administrative management: Antoaneta Monica Stanila – Sole Director, under a 4 year mandate valid until August, 1st 2021
Executive management: Viorel Stroică – Executive Director

b) Electromagnetica Fire SRL

Administrative management: Maria Rogoz – Sole Director, under a 4 year mandate valid until March 26th, 2022
Executive management: Maria Rogoz – Managing Director

c) Electromagnetica Prestserv SRL

Administrative management: Gheorghe Ciobanu – Sole Director, under a 4 year mandate valid until November 3rd, 2023
Executive management: Gheorghe Ciobanu – Managing Director

d) Procetel SA

Administrative management: Antoaneta Monica Stanila – Sole Director, under a 4 year mandate valid until August 15th, 2022
Executive management: Mihai Sanda – Accounting Officer

2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Initial application of the new changes to the existing standards in force for the current reporting period:

The following new standards, amendments to existing standards and new interpretations issued by the International Accounting Standards Board ("IASB") and adopted by the EU are applicable to the current reporting period:

- **Amendments to IAS 1 "Presentation of the financial statements" and IAS 8 "Accounting policies, modifications in accounting estimates and errors"** – material definition - adopted by the EU at 29 November 2019 (in force for annual periods beginning on or after 1 January 2020);

- **Amendments to IFRS 3 "Business Combinations"** – definition of a business - adopted by the EU on 21 April 2020 (in force for combinations of businesses for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for acquisitions of assets taking place on or after the start date of that period);

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: disclosure"** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (in force for annual periods beginning on or after 1 January 2020),

- **Amendments to References within the Conceptual Framework of the IFRS Standards** adopted by the EU on 29 November 2019 (in force for annual periods beginning on or after 1 January 2020).

The adoption of these new standards and amendments and interpretations of existing standards did not result in significant changes in the financial statements of the Group.

2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards and amendments to existing standards issued by IASB and adopted by the EU but not yet effective

At the time of approval of these financial statements, no amendments to existing standards / new standards or interpretations issued by the International Accounting Standards Board (IASB) and not yet effective were adopted by the EU.

New standards and amendments to existing standards issued by IASB, but not yet adopted by EU

Currently, the IFRS adopted by the EU are not materially different from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards that were not approved for use in the EU.

- **IFRS 14 "Regulatory Deferral Accounts"** (in force for annual periods starting on or after 1 January 2016) - The European Commission has decided not to launch the approval process for this interim standard and to wait for the final standard,

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Liabilities classification as current or non-current (in force for annual periods starting on or after 1 January 2022),

- **Amendments to IAS 16 "Property, plant and equipment" -** Income before intended use (in force for annual periods starting on or after 1 January 2022)

- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous contracts - Cost of performing a contract (effective for annual periods beginning on or after 1 January 2022);

- **Amendments to IFRS 3"Business Combinations"** - References to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),

- Amendments to IFRS 10 **"Consolidated Financial statements" and IAS 28 "Investments in Associates and Joint Ventures"** — sale or contribution of assets between an investor and the associate or joint venture and other amendments (effective date deferred until the equity research project has been completed),

- **Amendments to IFRS 16 "Lease"** — Covid-19 annuity concessions (valid for annual periods beginning on or after 1 June 2020). Prior application is permitted, including in the financial statements not authorized yet on 28 May 2020. It is also available for interim reporting.),

- **Amendments to various standards due to "Improvements to IFRSs (2018-2020 cycle)"** resulting from the annual IFRS improvement project (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily to eliminate inconsistencies and unclear wording (Amendments to IFRS 1, IFRS 9 and IAS 41 are applicable for annual periods beginning on or after 1 January 2022. Amendments to IFRS 16 refer only to an illustrative example, so no effective date is mentioned.)

The Group anticipates that the adoption of these standards, amendments to existing standards and new interpretations will not have a significant impact on the Company's financial statements during the initial period of application.

2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Further details on individual standards, amendments and interpretations of existing standards, which can be used as applicable:

- **IFRS 14 "Regulatory Deferral Accounts"** issued by IASB on 30 January 2014. This standard aims to allow companies that adopt IFRS for the first time and currently recognize the deferral accounts for the regulated activities, in accordance with the previous GAAP principles, to continue to do so after their transition to IFRS.

- **Amendments to IFRS 3 "Business Combinations"** – Definition of a business, issued by IASB on 22 October 2018. Amendments to enhance the definition of a business were introduced. The modified definition underlines the fact that the production of an enterprise is to provide goods and services to the customers, while the previous definition focused on yields under the form of dividends, of reduced costs or other economic benefits for the investor and others. Additionally, the board provided supplementary indications as regards the modification of the text of the said definition.

- **Amendments to IFRS 3 "Business Combinations"** - References to the Conceptual Framework with amendments to IFRS 3 issued by IASB on 14 May 2020. The amendments: (a) update IFRS 3 so it refers to the 2018 conceptual framework instead of the 1989 one; (B) add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the conceptual framework) to identify liabilities it has assumed in a business combination; and (c) add to IFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment with negative compensation, issued by IASB on 12 October 2017. The Amendments change the existing requirements of IFRS 9 regarding the rights of termination, to allow the measurement at the amortized cost (or, depending on the business model, at the fair value, through other components of the comprehensive income) even in the case of payments with negative compensation. In accordance with these amendments, the sign of prepayment value is not relevant, for example, depending on the interest rate prevailing at the time of termination, a payment can be made to the contracting party that makes the anticipated reimbursement. The calculation of this compensatory payment must be the same both for penalties on anticipated reimbursement and income from anticipated reimbursement.

- Amendments to **IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: disclosure"** - Interest Rate Benchmark Reform issued by IASB on 26 September 2019.

- Amendments to **IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: disclosure"** - Interest Rate Benchmark Reform issued by IASB on 26 September 2019.

  Amendments to interest rate benchmark:

  a) change the specific hedge accounting requirements so that entities apply those hedge accounting requirements, assuming that the benchmark interest rate on which the hedged cash flows and the cash flows in the hedging instrument are based will not be changed as a result of the reform of the benchmark interest rate;

  b) are mandatory for all hedging relationships that are directly affected by the reform of the benchmark interest rate;

  c) are not intended to provide exemptions from any other consequences arising from the reform of the benchmark interest rate (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, a discontinuation of the hedge accounting is required); and

2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

d) require specific disclosures about the extent to which the entities' hedging relationships are affected by the changes.

- **Amendments to IFRS 10 "Consolidated Financial Statements"** and **IAS 28 – Investments in associates and joint ventures** – sale or contribution of assets between an investor and an associate or a Joint Venture, was issued on 11 September 2014 (on 17 December 2015 IASB postponed the entry into force for an indefinite period of time). The amendments indicate that there is a conflict between the requirements IAS 28 and those of IFRS 10 and clarify the situation of a transaction with an associate, respectively the recognition of recognized profit or loss depends on the fact that the asset is sold or contributed.

- **Amendments to IFRS 16 "Lease"** — Covid-19 annuity concessions issued by IASB on 28 May 2020. The changes exempt tenants from having to consider individual leases to determine whether rental concessions occurring as a direct consequence of the Covid-19 pandemic are rental changes and allow tenants to consider such rental concessions as if they were there would be no rental changes. It shall apply to rental concessions related to Covid-19 that reduce rent payments due until 30 June 2021 or earlier.

- **Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, modifications of accounting estimations and errors"** – Definition of the material issued by IASB on 31 October 2018. Clarifying regulation to define the material and the manner in which this should be applied through the inclusion in the defining guide.

- **Amendments to IAS 28 "Investments in associates and joint ventures"** – Long-term interest in associates and joint ventures, issued by IASB on 12 October 2017. The Amendments are introduced to clarify that an entity applies IFRS 9 including its own requirements for impairment, term interest in an associate or a joint venture, which is part of the net investment in the associated company or the joint venture, but for which the equity method does not apply. The Amendments also eliminate point 41, as the board considered that it only reiterated the requirements of IFRS 9 and created confusion with regard to long-term interest accounting.

- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous contracts - Cost of performing a contract, issued by IASB on 14 May 2020. The amendments specify that the "cost of performance" of a contract includes "costs directly related to the contract". Costs directly related to a contract may be either incremental costs for the performance of that contract or an allocation of other costs directly related to the performance of contracts.

- **Amendments to various standards due to "Improvements to IFRSs (2018 - 2020 cycle)"**, issued by IASB on 14 May 2020. Amendments to various standards, which result from IFRS annual improvement project (IFRS 1, IFRS 9, IFRS 16 and IAS 41) mainly aim to eliminate inconsistencies and clarify formulations. The amendments: (a) clarify that the subsidiary applying paragraph D16(a) of IFRS 1 is permitted to measure accumulated translation differences using amounts reported by its parent company based on the transition date of IFRSs (IFRS 1); (b) clarify which fees an entity includes when applying the "10 per cent" test in paragraph B3.3.6 of IFRS 9 to assess whether it waives a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the creditor, including fees paid or received by the entity or the creditor on behalf of the other (IFRS 9); (c) remove from the example the illustration of the lessor's reimbursement of location improvements to address any potential confusion regarding the treatment of rental incentives that might arise due to how rental incentives are illustrated (illustrative example 13 accompanying IFRS 16); and (d) remove the requirement in paragraph 22 of IAS 41 for entities to exclude the taxation of cash flows when measuring the fair value of a biological asset using a current value technique (IAS 41).

2. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- **Amendments to References within the Conceptual Framework of the IFRS Standards** issued by IASB on 29 March 2018. Due to the fact that this conceptual framework was reviewed, IASB updated the references to the Conceptual Framework in IFRS standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. This was done in order to support the transition to the reviewed conceptual framework for the companies that develop accounting policies using the conceptual framework when no IFRS standard is applied for a given transaction.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated interim financial statements of the Company were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the date of the Company report, i.e. 30 June 2020, and in compliance with the Order of the Minister of Public Finance no. 2844/2016 approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to the trading companies the shares of which are admitted to trading on a regulated market, as further amended and clarified. These provisions are consistent with the requirements of the International Financial Reporting Standards adopted by the European Union.

Operating and presentation currency

These consolidated financial statements are presented in RON, the operating currency of the Group.

Basis of preparation

The interim consolidated financial statements were prepared on the basis of the historical cost, except for certain financial instruments that are measured at fair value, as explained in the accounting policies. The historical cost is generally based on the fair value of the consideration in exchange of the assets. Tangible assets are presented at revalued amount, according to IAS 16, while the real estate investments is specified at fair values, according to IAS 40.

Based on the management's estimates, adjustments are made for non-moving or slow moving inventories. The set up and reversal of adjustments for inventories impairment are made in the profit and loss account on a quarterly basis, at the respective reporting dates: 50% of the total value for non-moving inventories and 25% for slow-moving inventories.

In the first series of financial statements prepared in compliance with IFRS, the parent-company applied IAS 29 – Financial Reporting in Hyperinflationary Economies and corrected the historical cost of the share capital, legal reserves and other reserves established from the net profit by the effect of inflation until 31 December 2003. These adjustments were recorded in the reserves account (see Note 14).

Foreign currency

The operations expressed in foreign currency are recorded in lei, at the official exchange rate on the date of the transaction settlement. Monetary assets and liabilities recorded in foreign currency on the date of preparation of the statement of financial position are expressed in lei, at the exchange rate of that date. The gains or losses from their settlement and the conversion of monetary assets and liabilities denominated in foreign currency at the exchange rate applicable at the end of the financial period are recognized in the profit or loss for the period. The non-monetary assets and liabilities that are evaluated at historical cost in foreign currency are recorded in lei, at the exchange rate of the transaction date. The non-monetary assets and liabilities denominated in foreign currency and evaluated at fair value are recorded in lei, at the exchange rate applicable on the date when their fair value was determined.

The differences resulting from the conversion are presented in the profit and loss account.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency (continued)

The exchange rates of the main foreign currencies were as follows:

	Exchange rate 30 June 2020	Exchange rate 30 June 2019
EUR	4.8423	4.7414
USD	4.3233	4.1955

Use of estimates and professional judgement

The preparation of the financial statements in compliance with the IFRS adopted by the European Union requires the use by the management of estimates and assumptions that affect the application of the accounting policies and the reported value of assets, liabilities, revenues and expenses. The estimates and judgements related thereto are based on historical data and other factors deemed relevant in the given circumstances and the result of these factors represents the basis for the judgements used in determining the carrying amount of assets and liabilities for which there are no other evaluation sources available. The actual results may differ from the estimated values.

Estimates and judgements are periodically reviewed. The reviews of accounting estimates are recognised in the period in which the estimate is reviewed, if the review affects only that period, or in the current and future periods, if the review affects both the current period and future periods.

The effect of the modifications pertaining to the current period is recognised as revenue or expense in the current period. The effect on the future periods, if any, is recognised as revenue or expense in the corresponding future periods.

The Group management considers that the possible differences in relation to these estimates will not significantly affect the financial statements in the near future, applying the precautionary principle to each estimate.

Estimates and assumptions are used in particular for the impairment of fixed assets, the estimation of the useful life of a depreciable asset, the allowances for doubtful debts, provisions, and the recognition of deferred tax assets.

According to IAS 36, intangible assets are analysed to identify indicators of impairment at the balance sheet date. If the net carrying amount of an asset is higher than its recoverable amount, the loss from impairment is recognised to reduce the net carrying amount of that asset to the level of the recoverable amount. If the reasons for the recognition of the impairment loss disappear in the coming periods, the net carrying amount of the asset is increased to the value of the net carrying amount that would have been determined if no impairment loss had been recognised.

The evaluation of the impairment loss on receivables is individual and relies on the best estimate of the management regarding the current value of the cash flows expected to be received. The Company reviews its trade receivables and other receivables on every date of the financial position in order to assess whether an impairment in value should be recorded in the profit and loss account. The professional judgement of the management is particularly required to estimate the value and coordinate the future cash flows when the impairment loss is determined. These estimates are based on assumptions that refer to several factors and the actual results may be different, which leads to future modifications of adjustments.

According to their nature, contingencies will be clarified only when one or more future events occur or not. The measurement of contingencies involves the uses of assumptions and significant estimates of the outcome of future events.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and professional judgement (continued)

Deferred tax assets are recognised for tax losses to the extent that the existence of a taxable profit that would cover the losses is probable. The use of the professional judgement is necessary in determining the value of deferred tax assets that can be recognised based on the probability with regard to the period and level of the future taxable profit and the future fiscal planning strategies.

Accounting principles, policies and methods

According to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

The Group has selected and applies consistently its accounting policies for transactions, other events and similar conditions, except for the cases where a standard or an interpretation specifically provides for or allows the classification of events with regard to which the application of different accounting policies could be appropriate. If a standard or interpretation provides for or allows such a classification, an appropriate accounting policy must be selected and applied consistently to each category.

The Group changes an accounting policy only if the change:

- is required by a standard or interpretation; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

We present below a summary of the significant accounting policies applied to all the periods presented in the financial statements, except for the changes deriving from the new standards and amendments to standards with the date of initial application 01 January 2018 and presented in section 2.

Fair value

IFRS 13 – Fair value measurement establishes a fair value hierarchy, which classifies on three levels the input for the techniques used for fair value measurement:

- Level 1 input – quoted prices (unadjusted) on active markets, for identical assets and liabilities for which the entity has access at the time of measurement. Such data offer the most reliable evidence of the fair value and must be used whenever available.
- Level 2 input –different from the quoted prices included in level 1, this input can be directly or indirectly observed for an asset or a liability (e.g. prices quoted for identical or similar assets or liabilities on non-active markets)
- Level 3 input – unobservable input for assets or liabilities. The Group must prepare unobservable inputs based on the best information available under the given circumstances, which may include company own data.

Intangible assets

Initial measurement

The Group chose to measure these assets at purchase cost or production cost according to IAS 38 – Intangible Assets.

Measurement subsequent to initial recognition

The Group selected the cost model as the accounting policy for the measurement of intangible assets subsequent to the initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

The Group chose to use the straight-line method for the amortisation of intangible assets. The useful life for this group or non-current assets is between 3 and 5 years.

The Group applies IAS 36 to determine whether an intangible asset measured at cost is impaired. At the end of each reporting period, the Group assesses the indicators of impairment of these assets and, if such indicators are identified, the recoverable amount of the asset is estimated and the related impairment is recorded. The impairment loss must be recognised immediately in the profit or loss. **3.**

Revaluation based on initial recognition

For their presentation in the profit and loss account, the revenue or loss occurring upon the end of use or disposal of an intangible asset are determined as the difference between the revenue generated by the asset disposal and its unamortised value, including the costs incurred for its disposal, and should be presented as net amount in the profit and loss account, according to IAS 38.

Property, plant and equipment

Initial measurement

Tangible assets are initially recognized at the purchase cost or the production cost.

The cost of purchased tangible assets is given by the value of the consideration for the purchase of those assets and other costs directly necessary to bring the assets to the location and condition required for their operation in the manner intended by the management. The cost of self-created assets includes salaries, materials, indirect production costs and other costs directly necessary to bring the assets to their current location and condition.

The Group has established its own value threshold for the recognition of an item of property.

Measurement subsequent to initial recognition

The Group selected the revaluation model for the measurement subsequent to the initial recognition of tangible assets. According to the revaluation model, a tangible asset the fair value of which can be reliably measured should be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment.

Revaluations should be carried out regularly enough to ensure that the carrying amount of an asset does not differ materially from the amount determined by the use of its fair value at the end of the reporting period.

The fair value of land and building is generally determined based on market samples, through a measurement made by professional and qualified assessors.

The fair value of tangible assets is generally their market value determined by measurement.

Revaluation frequency depends on the changes in the fair value of revalued tangible assets. If the fair value of an asset materially differs from its carrying amount, a new revaluation is required.

When a non-current asset is revalued, any cumulated depreciation at the date of the revaluation is removed from the gross carrying amount of the asset and the net amount is retreated at the revalued amount of the asset.

Therefore, revaluation frequency depends on the changes in the fair value of tangible assets. If the fair value of a revalued tangible asset at the balance sheet date materially differs from its carrying amount, a

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

new revaluation is required. If the fair values are volatile, as the case may be for land and buildings, frequent revaluation may be required. If the fair values are determined for a long period, as the case may be for plant and equipment, less frequent revaluation may be required. IAS 16 suggests that annual revaluation may be required if there are material and volatile changes in the values.

Revaluation based on initial recognition

If a tangible asset is revalued, the entire category of tangible assets the revalued asset belongs is revalued.

The residual value of the asset and its useful life should be reviewed at least at the end of the financial period.

The depreciation of an asset begins when the asset is available for use, i.e. it is in the location and condition required to operate as intended by the management.

The depreciation of asset ends upon the first occurrence of either the date when the asset is classified as held for sale (or included in a group intended for disposal and classified as held for sale), according to IFRS 5, and the date when the asset is derecognised. Therefore, depreciation does not end when the asset is idle, except when the asset is completely depreciated.
Land and buildings are separable assets and are carried separately even when they are acquired together.The land owned is not depreciated.

If the cost of land includes costs of dismantling, removing and restoring, these costs are depreciated during the period in which revenue is obtained as a result of these costs being incurred.

For all the assets acquired starting from 1 January 2015, the Company opted to use the straight-line method as amortization method, which implies the systematic allocation of the amortization value over the entire economic life of the assets.

The residual value, the useful life and the depreciation method are reviewed at the date of the financial statements.

The Group management deemed appropriate the following durations of useful life for different categories of tangible assets:

Property, plant and equipment	**Duration (years)**
Buildings	20 - 100
Technological equipment	5 - 12
Measurement, control and adjustment devices	3 - 8
Means of transportation	4 - 8
Furniture, office equipment, human and material protection equipment	8 - 15

Impairment policy applied by the company

The revaluation surplus of a tangible asset accumulated in equity is monthly directly transferred to the retained earnings as it is depreciated, if the asset is used, and upon derecognition, when the asset is disposed of or withdrawn from use.

For a revalued asset, a loss from depreciation is recognized directly through the reduction of the possible surplus resulted from the revaluation of the asset, provided that the loss from depreciation does not exceed its revaluation surplus.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

The gain or loss resulting from the derecognition of a tangible asset is recognized in profit or loss at the date of the asset derecognition.

The carrying amount of a tangible asset is derecognised upon disposal or when future benefits from its use or disposal are no longer expected.

Impairment policy applied by the company (continued)

If items of tangible assets that were held for rental to others are sold repeatedly, these assets should be transferred to inventories at the carrying amount of the date when they cease to be rented and become held for sale. Receipts from the sale of these assets are recognized as incomes, in the profit and loss account.

Maintenance and major repairs

Capitalised costs for major repair activities are separate components of the corresponding assets or groups of assets. Capitalized costs for overhauls are amortized using the amortization method used for the underlying asset until the next overhaul. The expenditure for major repair works includes the cost of replacement of the assets or parts thereof, the costs of inspection and the costs of major repairs. The expenditure is capitalised if an asset or a part of an asset which was amortised separately is replaced and is expected to generate future economic benefits. If a part of the replaced asset was not considered a separate component and therefore was not amortized separately, the replacement value is used to estimate the net carrying amount of the replaced asset(s) which is/are immediately retired. All the other costs incurred for current repairs and ordinary maintenance are directly recognised as expenses.

Leasing contracts

The Group applied IFRS 16 beginning with 1 January 2019, using the retrospectively modified method, without the retreatment of comparative values for the presented previous period. This applied IFRS 16 for all the contracts existing prior to 1 January 2019, classified as leasing according to IAS 17 and IFRIC 4.

The Group chose to apply the exemption proposed by the standard for leasing contracts for low value assets (below 5,000 USD).

The Group recognized assets and new debts for the operational leasing contracts for motor vehicles, rented premises and equipment. Also, it was recognized an expense with the amortization of the right of asset utilization and an expense for the interest related to the leasing debt. The right to use assets on the date of transition is equal with the leasing debt, adjusted with any amount paid in advance for leasing payments that are foreseen related to leasing’s as recognized in the situation of the financial position immediately prior to the date of initial application.

On the date of commencement of the leasing contract, the Group recognizes the leasing debts, assessed at the updated value with the marginal loan rate of the leasing payments, during the duration of leasing contract. Payments include fixed payments minus any incentives to be received, variable leasing payments that are subject to an index or a rate and the amounts are expected to be paid under the form of a residual value.

Investment property

Initial measurement

Real estate investments initially recognized at cost according to IAS 40 – Real estate investments. The cost of investment property includes the purchase price plus any costs directly attributable thereto (professional fees for legal services, charges for the ownership transfer, etc.).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

Measurement subsequent to recognition

The Group selected the fair value model for the presentation of investment property in its financial statements. The real estate investments are not amortized, the gains or losses deriving from the changes in their fair value are included in the profit or loss of the period in which they occur.

Financial assets

The parent company applies IFRS 9 – Financial Instruments which entered into force on 1 January 2018 and where the classification of financial assets is based on the business model of the entity and the cash-flow characteristics of the financial asset.

Classification of financial assets

According to IFRS 9 Financial Instruments, financial assets are classified in:

1. financial asset *measured at amortized cost if the two requirements below are met*:

- the financial assets is held within a business model whose aim is to hold financial assets in order to collect the contractual cash-flows and

- the contractual terms of the financial asset generate, at certain dates, cash flows which are exclusively payments of the principal amount and the interest related to the principal amount owed

2. *financial asset measured at fair value through other components of the comprehensive result, if the two requirements below are met*

- the financial assets held within a business model whose aim can be reached both through the collection of the contractual cash flows and the sale of the financial assets and

- the contractual terms of the financial asset generate, at certain dates, cash flows which are exclusively payments of the principal amount and the interest related to the principal amount owed

3. *financial asset measured at fair value through profit or loss*, except where it is measured at amortized cost in accordance with point 1 or at fair value, through other components of the comprehensive result, in accordance with point 2

Except for the trade receivables which fall under IFRS 15, a financial asset or liability is initially measured at fair value, while for a financial asset or liability which is not measured at fair value through profit or loss the costs of the transaction will be added or deducted, costs which are directly attributable to the acquisition or issue of the financial asset or liability.

After initial recognition, the subsequent evaluation of financial assets will be made at:

- amortized cost
- fair value through other components of the comprehensive result or
- fair value through profit or loss

Financial assets include the shares held in subsidiaries, associated entities and jointly controlled entities, the loans granted to those entities, other investments held as intangible assets and other loans.

The Company presents its investments in subsidiaries measured at cost. The Company holds no investments in joint ventures or associated entities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

Investments in related entities

Subsidiaries are entities controlled by the company. **IFRS 10 – Consolidated Financial Statements** defines the control principle and establishes the control as the basis for consolidation. IFRS 10 establishes the manner of application of the control principle to determine whether an investor controls an investee and, therefore, it should consolidate the investee.

An investor controls an investee if and only if the investor has all of the following elements:

a) power over the investee;

b) exposure, or rights, to variable returns from its involvement with the investee;

c) the ability to use its power over the investee to affect the amount of the investor's returns.

Interest on loans

The interest on the loans directly attributable to the purchase, construction or manufacture of an asset with long production cycle are capitalised until the asset is prepared for its predetermined use or sale. All the other costs related to loans are recognised as expenses in the profit and loss account for the period of their occurrence. The interest expenses are carried using the effective interest method. In the 6-month period ended on 30 June 2020, respectively on 30 June 2019, no interest expenses were capitalized in the value of the assets.

Government grants

According to IAS 20, government grants are recognised only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. The grants that meet these requirements are presented as liabilities and recognized systematically in the profit and loss account for the useful life of the assets they relate to.

Inventories

According to IAS 2 – Inventories, these assets are:

- assets held for sale in the ordinary course of business
- assets in the production process for sale in the ordinary course of business or
- materials and supplies that are consumed in production or service provision

Inventories are stated at the lower of cost and net realisable value. The net realisable value is estimated based on the selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. Based on the management's estimates, adjustments are made for non-moving or slow moving inventories of production supplies and materials, as well as the inventories of unmarketable products.

The set up and reversal of allowances for inventories impairment is made in the profit and loss account.

To determine the inventory outflow cost of supplied materials, the Company uses the First In First Out (FIFO) method. The standard cost is used for inventory inflow and outflow of finished products. Based on the management accounting, the actual cost of the obtained products is determined at the end of each month.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

Receivables and other like assets

Beginning with 1 January 2018, the Company applied for the first time the new standard IFRS 9 „*Financial instruments*" whose result is an anticipated recognition of depreciation adjustments of debts up to the value of foreseen credit losses, calculated based on the rates of historic losses.

Receivables and other similar assets are presented at amortized cost decreased by the value adjustments.

When a receivable is expected not to be fully collected, allowances for impairment are recorded at the level of the amount that cannot be recovered. Receivables are discarded following their collection or assignment to a third party. Current receivables can also be discarded by the mutual offset of accounts receivable and payable between third parties, under the law. The receivables with expired collection time limits are discarded after the Company obtains the documents proving that all the legal steps to recover these receivables were taken. The discarded receivables will continue to be tracked off-balance sheet.

Cash and cash equivalents

For the purpose of the preparation of the statement on cash flows, the cash is considered to include the existing petty cash and the cash in current bank accounts. Cash equivalents represent deposits and investments with high liquidity and maturities under three months.

Liabilities

A liability is a present obligation of the Company arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

A liability is recognized in the accounting records and presented in the financial statements when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the settlement amount can be measured reliably.

Current liabilities are the liabilities that must be paid within a period of up to one year.

A liability should be classified as a current liability, also known as short-term liability, when:

a) it is expected to be settled in the ordinary course of the Group operating cycle;
b) it is primarily held for trading;
c) it is due to be settled within 12 months after the balance sheet date; or
d) the Company does not have the unconditional right to postpone the settlement of the liability for at least 12 months from the balance sheet date.

All the other liabilities must be classified as ***non-current liabilities***.

Liabilities are presented at amortized cost. Deferred income considered to be non-current liabilities is updated using the effective interest rate method. The updating rate used is the rate determined in accordance with the principles of the procedure issued by the Company management.

The Company derecognizes a liability when the contractual obligations are performed, cancelled or expired.
If the goods and services supplied in relation to current activities were not invoiced but the delivery was made and their value is available, the obligation in question is recorded as a liability.

The amounts representing dividends attributed from the net profit of the reporting period are recorded in the following year as carried forward result, and after the general meeting of shareholders approves this destination, they will be carried as dividends payable to the shareholders.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

Current income tax

The current tax payable is determined based on the taxable profit for the year. The tax profit is different from the profit presented in the profit and loss account because it excludes items of income or expenses that are taxable or deductible in other years and also excludes the items that will never become taxable or deductible. The liability of the Company in relation to the current income tax is calculated using the tax rates provided for by the law or a draft legislative instrument at the end of the year. Currently, the tax rate is 16%.

Deferred tax

The deferred tax is created by analysing the temporary differences of assets and liabilities. The tax loss carried forward is included in the calculation of the deferred tax asset. A deferred tax asset is recognised only if it is considered probable that there would be sufficient future taxable profit after the offset with the tax loss carry forward and the recoverable income tax.
Deferred tax assets and deferred tax liabilities can only be offset if the entity has this legal right and they relate to the income tax levied by the same taxing authority.

Revenue recognition

Revenues are measured according to IFRS 15 – Revenues from Contracts with Customers.

IFRS 15 establishes a 5-step model to record the revenues resulted from contracts with customers:

- Step 1: Identification of a contract with a customer
- Step 2: Identification of payment obligations established in the contract
- Step 3: Determination of the transaction price
- Step 4: Allocation of the transaction price for the performance obligations included in the contract
- Step 5: Recognition of revenues as the company fulfils a performance obligation

In accordance with IFRS 15, revenues are recognized in the amount which reflects the consideration at which an entity expects to be entitled in exchange of the transfer of goods or services to a customer.

Sale of goods

In accordance with IFRS 15, the revenues will be recognized when a customer gets control of the goods. The Company delivers goods under contractual conditions based on delivery terms. The time when the customer gets control of the goods is considered to be substantially the same for most contracts of the Company, according to IFRS 15 and IAS 18.

For the contracts with customers, where the sale of goods (mainly LED lighting units, meters, railway traffic safety elements etc.) is generally estimated to be the only performance obligation, it is expected that the adoption of IFRS 15 will have no impact on the revenues and profit or loss of the Company.

The Company expects that the revenue recognition will take place at a certain moment in time, when the control of the asset is transferred to the customer, namely upon delivery of the goods.

While preparing to adopt IFRS 15, the Company considered the following:

Variable consideration

Some contracts with customers provide volume rebates, financial cuts, trade discounts or the right to return the goods for quality defects. Currently, the revenues gained from these sales are recognized

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

based on the price specified in the contract, return net quantities and revenue decreases, trade discounts and volume rebates recorded based on accrual accounting, when a reasonable estimation of revenue adjustment can be made.

In accordance with IFRS 15, the estimation of the variable revenue is necessary to be made at the beginning of the contract. The revenues will be recognized insofar as a significant reversal of the cumulated value of the recognized revenues is unlikely to take place. Consequently, for those contracts for which the Company is not able to make a reasonable estimation of the reductions, the revenue will be recognized earlier than in the case where the return period ends or a reasonable estimation can be made.

However, because the contractual periods for most contracts coincide with the calendar years for which the annual financial statements are prepared, and because the Company currently reports its annual revenues from contracts with customers net of adjustments, such as volume rebates or financial cuts, the impact on the result carried forward from the treatment of variable revenues following the adoption of IFRS 15 is not effective. At the same time, the cases of complaints for quality (rights to return) are isolated and, according to history, they are not material, so that the Company cannot make a reasonable estimation of such a reversal of revenues at the reporting date.

Impact on carried forward result.

The parent company is the principal in all the sale contractual relationships because it is the main performer in all the revenue contracts, has the right to establish the price and is exposed to stock and credit risks.

In accordance with IFRS 15, the measurement will be based on the fact that the Company controls the specific goods before transferring them to the end customer rather than these are exposed to risks and significant rewards associated to the sale of goods.

Recognition of revenue from distinct performance obligations

According to some delivery terms, the parent company may provide services such as transportation to a specified destination beyond the moment of transfer of the control of goods to customers. IFRS 15 requires that an entity should keep records of each of the distinct goods or services as a separate performance obligation. The freight services could fall within the definition of a distinct service, but a full understanding of the commercial terms is necessary to ensure that this is the case. A performance obligation for transportation generally satisfies the performance obligation criteria over a period of time, and the revenues will be recognized during the transfer of goods to the customer. Otherwise, the performance obligation is considered fulfilled at a certain moment in time and the revenues would be recognized when the customer receives the goods. This could lead to the recognition of part of the contractual revenues when the control of goods is transferred and the recognition in time of the part of revenues relating to freight services. There can be no separate obligation for an entity to transport its own goods (i.e. before transferring the control of goods to the customer).

The impact on the result carried forward from the treatment of transport services as distinct performance obligation, following the adoption of IFRS 15, is non-material.

Provision of services

The Company provides various services as main activities (construction-installation works) and occasional activities. The revenue is measured at the fair value of the compensation received or to be received. In accordance with IFRS 15, the total consideration in the service contracts will be allocated for all the services based on their individual sale prices. The independent sale prices will be established based on the list prices at which the Company provides the respective services in separate transactions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

Performance obligations fulfilled in time

SC Electromagnetica SA transfers the control of a good or a service in time and therefore fulfils a performance obligation and recognizes revenues in time if one of the following criteria is met:

(a) the customer receives and simultaneously consumes the benefits offered through the performance by the entity as the entity is performing

(b) the performance by the entity creates or improves an asset (e.g. work in progress) which the customer controls, as the asset is being created or improved or

(c) the performance by the entity does not create an asset with alternative use for the entity, while the entity has an enforceable right to payment for the work performed until the respective date

Performance obligations fulfilled at a specific time

If SC Electromagnetica SA fulfils a performance obligation at a specific time (e.g. the supply of goods with installation or placing in service at a point in time), to determine the specific time when the customer gets the control of a promised asset and Electromagnetica fulfils a performance obligation, the stipulations regarding the transfer of control will be analysed together with the indicators of such transfer, especially the acceptance of the asset by the customer, which can be certified by signing the commissioning protocol/start-up report or the explicit acceptance for payment.

If there is an agreement on invoicing before delivery, in addition to the above conditions for a customer to get the control of a product, the following criteria must be met:

- the reason for such agreement on invoicing before delivery must be substantial (a written request from the customer)
- usually the product must be ready for the physical transfer to the customer
- the entity which delivers the product cannot have the capacity to use it or assign it to another customer

If the contract concluded with a customer contains a provision of acceptance, then the time when a customer gets the control of a good or a service will be determined according to that provision.

Assessment of the progress in fulfilling a performance obligation entirely

For each performance obligation fulfilled in time the Company recognizes the revenues in time through the assessment of the progress in fulfilling that performance obligation entirely. The purpose of such assessment is to present the transfer of control of the goods or services promised to a customer client (i.e. the fulfilment of the performance obligation by the supplier).

Reasonable progress assessments

The Company recognizes the revenues for a performance obligation fulfilled in time only if it can reasonably assess its progress in fulfilling that obligation entirely and holds the reliable information necessary to apply an adequate progress assessment method. To assess the progress in fulfilling a future obligation, which is necessary, for example, in the contracts including a provision for placing into service or installation, the Company chose the method based on inputs according to which revenues are recognized on the basis of inputs or of the efforts of the entity in fulfilling a performance obligation (e.g. consumed resources, number of hours worked, recorded costs, time elapsed or hours of use of machinery) as compared to the total inputs foreseen for fulfilling the respective performance obligation. If the inputs or efforts are distributed uniformly over the whole period of performance, the revenues can be recognized on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

IFRS 15 requirements for recognition and assessment are also applicable to the recognition and measurement of any gains or losses resulted from the disposal of non-financial assets (such as non-current assets and intangible assets), where such disposal is not in the normal course of business. Nevertheless, upon transition, the effect of these changes is not expected to be significant for the Company.

Rental income

The revenue from renting activities is recognised on a straight-line basis in the profit and loss account over the duration of the rental agreement.

Dividends and interest

The revenue arising from dividends is recognised when the shareholder's right to receive payment is established. The revenue is recorded at the gross amount that includes the tax on dividends, which is recognised as a current expense in the period in which the distribution was approved.

The revenue arising from interest is recognised based on an accrual basis, by reference to the outstanding principal and the effective interest date, the rate that exactly discounts the estimated future flows of the amounts received.

Provisions

Provisions are presented separately from other debts, such as the trade debts or estimated debts, because there is an uncertainty around the moment and value at which the settlement will be made in future.
Provisions are recognised for present obligations to third parties when it is probable that the obligation will be settled and the settlement amount can be estimated reliably. Provisions for individual obligations are settled at an amount equal to the best estimate of the amount necessary to settle the obligation.

Provisions are grouped by categories and are recognised for:

a) lawsuits;

b) guarantees to customers;

c) dismantling of tangible assets and other similar actions related thereto;

d) restructuring;

e) employee benefits;

f) other provisions

When the review by the management together with the legal advisors of the chances for the Company to lose a lawsuit leads to the conclusion that the estimated probability for loss is higher than 50%, a provision is recognised at the reliably estimated amount.

Provisions for guarantees to customers are recognised depending on the estimates of the management and the sales, technical and quality departments on the level of expenses incurred for repairs during the warranty period. The level of expenses incurred for repairs during the warranty period is determined as a percentage of the turnover for the reporting year.

Provisions for restructuring

The implicit restructuring obligation occurs where an entity:

- has in place an official detailed restructuring plan that presents: the activity or part of activity it refers to, the main locations affected, the location, position and approximate number of

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

employees to receive compensation for the termination of their activity, the expenses involved, the date of implementation of the restructuring plan.

- has generated the reasonable expectation of the affected parties that the restructuring will be performed by starting the implementation of the restructuring plan or the communication of its main features to those affected by the restructuring process

The restructuring provision only includes the expenses directly related to the restructuring.

Provisions for employee benefits

During the financial year provisions for annual leaves not taken and other provisions according to the employment contracts are recorded. Upon their recognition as liabilities to employees, the amount of provisions will be carried forward in the corresponding revenue accounts.

Other provisions

If liabilities of uncertain timing or amount that meet the conditions of the recognition of provisions according to IAS 37 are identified but not found in any of the above categories, other provisions are recorded.

At the end of each reporting period, the provision is remeasured and adjusted to represent the best present estimate. When the analysis shows that the need for outflows of resources embodying economic benefits to settle the obligation is no longer probable, the provision must be cancelled.

The parent company does not recognise provisions for operating losses. The forecast of operating losses indicates that certain operating assets can be impaired, in which case these assets are tested in accordance with IAS 36 – Impairment of Assets.

Employee benefits

The obligations representing short-term employee benefits are not updated and are recognized in the profit and loss account as the related service is provided.

The short-term employee benefits are wages and salaries, bonuses, and social security contributions. Short-term benefits are recognised as expense in the period in which the services are rendered.

The parent company makes payments on behalf of its employees to the Romanian public pension system, the health fund and the unemployment fund in the ordinary course of business.

All the Company employees are enrolled in and required to contribute to the Romanian public pension system. All the related contributions are recognised in the profit and loss account for the period in which they are paid. The Company does not have other additional obligations.

The parent company is not involved in any independent pension scheme; therefore, it does not have any obligations in this regard. The Company is not involved in any post-employment benefit scheme. The Company does not have any obligation to provide subsequent services to former or present employees.

At present, the Company does not grant employee benefits in the form of profit sharing.

Currently, there is no plan providing for the Company to grant benefits in the form of entity shares (or other equity instruments).

Profit or loss for the period

The profit or loss is accounted for cumulatively from the beginning of the financial period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

The profit or loss for the period is determined as the difference between the income and expenses of the period.

The final profit or loss for the financial period is determined upon closure and represents the final balance of the profit and loss account.

The profit is distributed under the laws in force. The amounts representing reserves set up from the profit of the current financial period, under applicable legal provisions, such as the legal reserve established under Law no. 31/1990, are recorded at the end of the current period. The accounting profit remaining after this distribution is carried forward at the beginning of the financial year following the period for which the annual accounts are prepared, in the carried forward result, representing the undistributed profit or the uncovered loss, from which it is distributed to other destinations decided by the general meeting of shareholders according to the law. The destinations of the accounting profit are accounted for after the general meeting of shareholders has approved the profit distribution, by the recording of the amounts representing dividends due to shareholders, reserves, and other destinations, under the law.

Earnings per share

IAS 33 – Earnings Per Share stipulates that if an entity presents both consolidated and separate financial statements, it will be required to present the earnings per share only on the basis of the consolidated information. If the entity chooses to present the earnings per share based on its separate financial statements, it is required to present the information about the earnings per share only in the statement of comprehensive income.

The company chose to present the earnings per share in these separate financial statements.

The Company presents the basic earnings per share ("EPS") for its ordinary shares. The basic EPS is calculated by dividing the gain or loss attributable to the holders of ordinary shares of the Company by the weighted average of the outstanding ordinary shares during the period.

The weighted average of ordinary shares outstanding during the period represented the number of shares outstanding at beginning of period adjusted by the number of the shares redeemed or issued during the period multiplied by a time weighting factor.

The time weighting factor is the number of outstanding days of the shares, calculated as percentage of the total number of days of the period.

Segment reporting

An operating segment is a separate component of the Company, which is engaged in activities that could generate revenues and expenses, including revenues and expenses related to the transactions with any of the other components of the Company, and is exposed to risks and benefits that are different from those of the other segments. The main format for the Company's reporting by operating segments is represented by the segmentation by activities.

As the shares of the Company are traded on the Bucharest Stock Exchange and the Company applies the IFRS, the entity presents in its annual accounts and the interim reports prepared according to IAS 34 - Interim Financial Reporting, information about the operating segments, their products and services, their geographical areas of activity and their main customers.

According to IFRS 8 - Operating Segments, an operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

- for which discrete financial information is available.

Considering the criteria for the identification of operating segments and the quantitative thresholds described in IFRS 8, the Company identified the following operating segments for which it presents separate information:

- licensed activity – electricity supply and production.

- unlicensed activity;

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

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
At 31 December 2019	**154,589,917**	**115,344,527**	**33,911,929**	**4,310,286**	**1,185,609**	**309,342,268**
Inflows	-	-	599,378	587,853	1,359,738	2,507,132
Transfers	-	-	574,763	383,245	(958,008)	-
Outflows	-	(893,116)	(1,131,045)	(116,502)	(958,008)	(3,058,835)
At 30 June 2020	**154,589,917**	**114,451,411**	**33,380,262**	**4,781,637**	**1,587,339**	**308,790,566**

Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
At 31 December 2019	**328,881**	**4,115,098**	**17,753,590**	**2,057,194**	**-**	**24,254,763**
Depreciation for the period	-	1,976,305	1,808,939	253,491	-	4,038,735
Accumulated depreciation for outflows	-	(68,752)	(715,955)	(20,014)	-	(804,721)
At 30 June 2020	**328,881**	**6,022,651**	**18,846,573**	**2,290,671**	**-**	**27,488,776**
At 31 December 2019	**154,261,036**	**111,229,429**	**16,158,339**	**2,253,092**	**1,185,609**	**285,087,505**
At 30 June 2020	**154,261,036**	**108,428,760**	**14,533,688**	**2,490,966**	**1,587,339**	**281,301,789**

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
At 31 December 2018	**154,589,917**	**115,281,150**	**33,737,246**	**3,811,676**	**1,088,185**	**308,508,174**
Inflows	-	63,377	430,612	117,199	786,093	1,397,281
of which:						
- from revaluation	-	-	-	-	-	-
Outflows	-	-	-	-	(670,347)	(670,347)
of which:						
- from revaluation	-	-	-	-	-	-
- from the determination of the net amount for revaluation	-	-	-	-	-	-
At 30 June 2019	**154,589,917**	**115,344,527**	**34,167,858**	**3,928,875**	**1,203,931**	**309,235,108**

Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
At 31 December 2018	**328,881**	**-**	**14,223,866**	**1,652,341**	**-**	**16,205,088**
Depreciation for the year	-	2,104,594	2,006,383	218,982	-	4,329,959
Accumulated depreciation for outflows of which:	-	-	-	-	-	-
- from the determination of the net amount for revaluation	-	-	-	-	-	-
At 30 June 2019	**328,881**	**2,104,594**	**16,230,249**	**1,871,323**	**-**	**20,535,047**
At 31 December 2018	**154,261,036**	**115,281,150**	**19,513,380**	**2,159,336**	**1,088,185**	**292,303,086**
At 30 June 2019	**154,261,036**	**113,239,933**	**17,937,609**	**2,057,552**	**1,203,931**	**288,700,061**

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

To secure the guarantee agreements and the loan contracts signed with the financing banks, the company mortgaged the assets below, in favour of the said banks, as follows:

Name of the asset	**Net book value 30 June 2020**	**Net book value 31 December 2019**
- Buildings (cadastral parcels no. 13, 15) Calea Rahovei, no/ 266-268, sector 5, Bucharest	26,110,137	26,354,492
- Buildings (cadastral parcels no. 1-3, 9,10,18,19,21,23-26) Calea Rahovei 266-268 Sector 5 Bucharest	33,434,881	33,496,145
- Land in Calea Rahovei, no. 242 = 2,157 sq.m.	5,160,797	5,160,797
- MHCs (land + industrial and public constructions)	47,809,188	48,706,930

Tangible fixed assets comprise assets purchased by governmental subsidy and used in the licensed activity at one of the micro-hydroelectric power plants, located in Brodina Commune, Suceava County. The remaining value of the investment on 30 June 2020 is 10,676,065 lei, of which the subsidized amount is 4,491,916 lei. The remaining value of the investment on 31 December 2019 was 10,831,211 lei, of which the subsidized amount is 4,573,525 lei.

Fair value of tangible assets

The Group’s tangible assets, other than the pending tangible assets, are disclosed in the financial statements at the revalued amount, which represents the fair value on the evaluation date, less the accumulated impairment and the depreciation adjustments.

This method is recommended for properties, when there is sufficient and reliable data on transactions or offers for sale of similar properties in the area. The analysis of the prices for which the transactions were performed or of the prices requested or offered for comparable properties is followed by making some corrections of their prices, for quantifying the differences between the prices paid, requested, or offered, caused by the differences between the characteristics specific for each property individually, named comparison elements.

The fair value of the buildings was determined by using the cost approach and the income approach.

The cost approach implies that the maximum value of an asset for an informed buyer is the amount that is necessary for buying or building a new asset with equivalent utility. When the asset is not new, all the forms of depreciation that may be assigned thereto until the evaluation date must be deducted from the gross current cost.

The income approach offers an indication over the value by the conversion of the future income flows in the value of the asset (the market value or the investment value).

Information on the fair value hierarchy as at June 30,2020 and December 31,2019:

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Fair value of tangible assets (continued)

	Level 1	Level 2	Level 3	Fair value on 30 June 2020
Lands and arrangement of lands	-	-	154,261,036	154,261,036
Buildings	-	-	108,428,760	108,428,760

	Level 1	Level 2	Level 3	Fair value on 31 December 2019
Lands and arrangement of lands	-	-	154,261,036	154,261,036
Buildings	-	-	111,229,429	111,229,429

There were no transfers between the levels related to the fair value neither during the year 2020, nor during 2019.

5. INVESTMENT PROPERTY

The Group holds real estate properties used in full for letting. All the rental agreements have an initial duration of minimum one year. Further extensions are negotiated with the tenants. The parties’ duties with regard to repairs, maintenance and improvements are provided under the executed agreements.

According to IAS 40, this category of property is recognised as investment property. For highlighting of real estate investment under the financial statements, the Company chose the fair value-based model.

On 30 June 2020, the investment property is structured as follows:

	30 iunie 2020	31 decembrie 2019
Initial balance	**9,445,159**	**8,433,921**
Inflows, of which:	-	1,082,787
from evaluation at fair value	-	1,082,787
transfers	-	-
Outflows, of which:	-	(71,549)
from evaluation at fair value	-	(71,549)
transfers	-	-
Final balance	**9,445,159**	**9,445,159**

The Group also owns other leased spaces within some real estate property used jointly with other business. They are not classed as being real estate investment as the share of income from rent in the total income share is insignificant. Also, in most cases, such spaces cannot be managed separately.

We mention that there are no restrictions on the level of realisation of investment property or the transfer of revenue and proceeds from disposal

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

5. INVESTMENT PROPERTY (continued)

Information related to the hierarchy of the fair value on 30 June 2020 and 31 December 2019:

	Level 1	Level 2	Level 3	Fair value on 30 June 2020
Investment property	-	-	9,445,159	9,445,159

	Level 1	Level 2	Level 3	Fair value on 31 December 2019
Investment property	-	-	9,445,159	9,445,159

6. INTANGIBLE ASSETS

Intangible assets include software, licences and various software applications. They are amortised using the straight-line method.

At the financial position status, they are presented under historical costs, less redemption and potential value adjustments.

Intangible assets have mainly fallen due to the paying off of some licenses.

The situation of intangible assets on 30 June 2020 was:

Cost	Concessions patents licences	Other intangible assets	Intangible assets in progress	Total
At 31 December 2019	**1,163,759**	**2,707,434**	**65,539**	**3,936,732**
Inflows	49,221	453	49,220	98,894
Outflows	-	-	(49,220)	(49,220)
At 30 June 2020	**1,212,980**	**2,707,887**	**65,539**	**3,986,406**
Accumulated depreciation				
At 31 December 2019	**824,888**	**2,646,474**	**-**	**3,471,362**
Depreciation for the period	80,245	54,132	-	134,377
Accumulated depreciation for outflows	-	-	-	-
At 30 June 2020	**905,133**	**2,700,606**	**-**	**3,605,739**
Net carrying amount				
At 31 December 2019	**338,871**	**60,960**	**65,539**	**465,370**
At 30 June 2020	**307,847**	**7,281**	**65,539**	**380,667**

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

6. IMOBILIZARI NECORPORALE (continuare)

Cost	Concessions patents licences	Other intangible assets	Intangible assets in progress	Total
At 31 December 2018	**902,855**	**2,711,909**	**78,313**	**3,693,077**
Inflows	58,597	(4,476)	74,409	128,530
Outflows	(2,293)	-	(51,743)	(54,036)
At 30 June 2019	**959,159**	**2,707,433**	**100,979**	**3,767,571**
Accumulated depreciation				
At 31 December 2018	**663,532**	**2,325,104**	**-**	**2,988,636**
Depreciation for the period	82,335	190,363	-	272,698
Accumulated depreciation for outflows	-	-	-	-
At 30 June 2019	**745,867**	**2,515,467**	**-**	**3,261,334**
Net carrying amount				
At 31 December 2018	**239,323**	**386,805**	**78,313**	**704,441**
At 30 June 2019	**213,292**	**191,966**	**100,979**	**506,237**

7. ASSETS RELATED TO RIGHTS OF USE

IFRS 16 replaces the existing guidelines regarding leases, including IAS 17 *Leasing*, IFRIC 4 *Determination of the extent where such a commitment contains a leasing contract*, SIC-15 *Operating Lease – Incentives*, and SIC-27 *Evaluating the substance of transactions involving the legal form of a lease*. The Standard eliminates the current dual accounting model for lessees and imposes on the companies to bring most of the leasing contracts within the balance in only one model, eliminating the distinction between operational and financial leasing contracts. In accordance with IFRS 16, a contract is or contains a leasing contract in case it confers the right to control the utilization of an asset identified for a period of time in exchange of a compensation. For such contracts, the new model imposes on the lessee to recognize an asset pertaining to the right of use and liability related to the lease contract. Assets related to rights of use are amortized over the duration of the lease and the liability generates interest. Interest expenses are recorded in the profit and loss account during the lease term and are calculated on the remaining balance of the lease liability for each period. For most lease contracts, this will determine higher expenses at the beginning of the leasing contract, even if the lessee pays constant rates. The lessee's accounting remains affected to a great extent by the introduction of the new standard, and the distinction between the operational and financial leasing contracts will be maintained.

As mentioned in the accounting policy note, the Company considered the following aspects related to the contracts covered by IFRS 16: i) it has not recognized any right-of-use assets or lease liabilities related to contracts that expire within less than 12 months after the date of application; and ii) it has not recognized any right-of-use assets or lease liabilities for low-value contracts (below USD 5.000
Fiind permis de catre standard, Grupul a adoptat IFRS 16 incepand cu 1 ianuarie 2019 utilizand metoda retrospectiva modificata, fara a modifica cifrele din perioadele anterioare.

On 30 June 2020, the Company recognised assets related to rights of use amounting to 213.981 RON si and lease liabilities amounting to 219.757 RON pertaining to previous operating lease contracts, of which short-term liabilities amounting to 66.015 RON and long-term liabilities amounting to 153.742 RON.

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

7. ASSETS RELATED TO RIGHTS OF USE (continued)

	Balance as of 01/01/2020	Inputs	Outflows	Balance as of 30/06/2020
Right of use	281,970	-	(20)	281,950
Of which:				
Right of use of vehicles	281,970	-	(20)	281,950
Leasing debt	226,274	1,454	(7,971)	219,757
Recognised impairment	33,669	34,300	-	67,969
Interest expense	-	7,646	-	-

Net value of assets on 30 June 2020: 213.981 RON

Of which:
Net value of the right to use assets: 213.981 RON
Net value of the right to use vehicles: 219.757 RON

8. OTHER NON-CURRENT ASSETS

This category includes the performance bonds awarded to clients and which were classed as long-term, according to the agreements executed.

These assets are measured at cost and are assessed for impairment annually.

	30 June 2020	31 December 2019
Good performance bond granted to clients	909,165	1,612,182
Trade receivables spread in instalments on long term	24,187,202	24,901,807
Adjustment of receivables to the current value	(1,707,264)	(1,830,235)
Other long-term non-current assets	153,135	18,522
Total	**23,542,238**	**24,702,276**

The receivables spaced out on the long term, with a net value of Lei 22,479,938 on 30 June 2020, have been updated to their current value, while the financial value-time effect amounted to Lei 1,707,264. The current portion is recognized in trade receivables (Note 10).

9. INVENTORIES

	30 June 2020	31 December 2019
Raw materials	7,655,749	7,636,015
Consumables	2,139,668	1,770,534
Finished goods	5,389,332	3,243,966
Work in progress	1,200,731	3,170,253
Other inventories	2,151,626	1,950,474
Allowances for the impairment of inventories	(1,787,045)	(1,802,984)
Total	**16,750,061**	**15,968,258**

Other inventories contain inventory items, end products or material under the custody of third parties, as well as advance payments made to suppliers of goods.

The movement of allowances for the impairment of inventories is as follows:

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

9. INVENTORIES (continued)

	30 June 2020	31 December 2019
Balance at beginning of the period	**1,802,984**	**1,744,374**
Impairment allowance recording	456,727	1,253,817
Impairment allowance write-down	(472,666)	(1,195,207)
Balance at end of the period	**1,787,045**	**1,802,984**

The adjustments recorded during the reporting period related to raw material and idle or slow-moving material, as well as idle end products.

The Group did not pledge inventory items to secure liabilities.

10. TRADE RECEIVABLES

Receivables are recorded at nominal value and are accounted for in the cost accounting for each natural or legal person. Foreign currency receivables were assessed based on the exchange rate current at the end of the period, while any differences in exchange rates were recognized as income or expenses during the period

	30 June 2020	31 December 2019
Internal trade receivables*	63,963,144	54,798,360
External trade receivables	4,371,638	5,384,968
Estimated trade receivables	499,882	605,325
Adjustment of domestic receivables at current value	(726,368)	(614,177)
Allowances for the impairment of trade receivables	(5,616,856)	(4,948,467)
Net trade receivables	**62,491,440**	**55,226,009**

*Internal trade receivables also include performance bonds with maturity under 1 year, awarded to clients. On 30 June 2020, they amount to Lei 1,230,063 (31 December 2019: Lei 264.224).

Sale or service agreements executed with clients on supplier credit grounds were updated to their current value. The total financial value-time effect amounted to Lei 2,433,632, of which Lei 726,368 for a maturity term of under one year, and Lei 1,707,264 over one year. The section for over one year is recognized under Other Fixed Assets (Note 8).

The balance of client receivables, on 30 June 2020, amounted to Lei 501,319 (31 December 2019: Lei 484,456) and represents promissory notes issued by clients in favour of the Company, based on the agreements executed.

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

10. TRADE RECEIVABLES (continued)

The movement of allowances for the impairment of trade receivables is as follows:

	Jan –Jun 2020	An 2019
Balance at beginning of the period	**4,948,467**	**4,314,458**
Impairment allowance recording	750,007	1,100,670
Impairment allowance write-down	(81,618)	(466,661)
Balance at end of the period	**5,616,856**	**4,948,467**

Uncertain or litigating clients are amounting on 30 June 2020 to lei 5,616,856 (on 31 December 2019: lei 4,948,467).

The impairment recorded refers to amounts not collected from doubtful accounts or disputes for which a risk of failure to collect was estimated according to the policy adopted by the company.

Situation of the age of the receivables on the date of preparation of the financial standing was:

	Gross value 30 June 2020	Provision 30 June 2020	Gross value 31 December 2019	Provision 31 December 2019
Maturity not reached	48,556,507	-	44,397,268	-
Maturity exceeded between 1 – 30 days	4,327,680	-	5,997,123	-
Maturity exceeded between 31 – 90 days	3,605,576	-	791,361	-
Maturity exceeded between 90 – 180 days	1,558,561	-	1,449,893	-
Maturity exceeded between 180 – 365 days	2,520,096	-	1,798,922	-
More than one year	7,539,876	-	5,739,909	(4,948,467)
TOTAL	**68,108,296**	**(5,616,856)**	**60,174,476**	**(4,948,467)**

11. OTHER CURRENT ASSETS

	30 June 2020	31 December 2019
Debtors	686,069	373,525
Accrued expenses	1,607,015	929,144
Suppliers debtors	249,674	194,467
Other assets	134,009	474,027
Total	**2,676,767**	**1,971,163**

The accrued expenses of 1,607,015 lei mainly consist of rent paid in advance, insurance premiums for the civil liability of directors and various subscriptions.
In **Other assets** the following are mainly included: VAT under settlement amounting to Lei 75,724, amounts to be recovered from health social insurance amounting to Lei 112,954.

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

12. CASH AND CASH EQUIVALENTS

	30 June 2020	31 December 2019
Petty cash	23,219	28,806
Cash at bank	23,653,897	26,189,782
Cash equivalents	5,835	1,147
Total	**23,682,951**	**26,219,735**

	30 June 2020	31 December 2019
Restricted cash	142,119	80,302
Total	**142,119**	**80,302**

The restricted cash is used to guarantee certain obligations (collateral cash).

13. SHARE CAPITAL

The **share capital** subscribed and paid up is 67,603,870 lei, divided into 676,038,704 shares at nominal value 0.10 lei/share, fully paid-up.

The structure of the shareholders that own over 10% of the share capital at 30 June 2020 is, according to the Central Depository Register:

	30 June 2020		**31 December 2019**	
Shareholder	**No. of shares**	**%**	**No. of shares**	**%**
PAS Association	171,084,540	25.3069	171,084,540	25.3069
SIF Oltenia SA	176,717,594	26.1402	176,717,594	26.1402
Individuals	249,453,176	36.8992	249,631,166	36.9256
Legal persons	78,783,394	11.6537	78,605,404	11.6274
Total	**676,038,704**	**100**	**676,038,704**	**100**

The Group does not own bonds, redeemable shares or other portfolio securities.

14. RESERVES

Legal reserve	**30 June 2020**	**31 December 2019**
Balance at beginning of the period	**19,702,434**	**19,453,374**
Increase	145,108	249,060
Decrease	-	-
Balance at end of the period*	**19,847,542**	**19,702,434**

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

14. RESERVES (continued)

In accordance with Romanian legislation, companies must distribute at least 5% of the profit before tax in legal reserves, until these reserves reach 20% of the share capital. When this level is reached, the Company can only make additional allocations from the net profit. The legal reserve is deductible within the limit of 5% of the accounting profit, before the determination of the income tax.

* From the legal reserve recognized at 30 June 2020, the amount of Lei 8,649,877 represents the balance of the inflation adjustment calculated according to IAS 29 (31 December 2019: Lei 8,649,877).

Revaluation reserves are 95,090,018 lei at 30 June 2020. As compared to the balance at the beginning of the period, these decreased due to the transfer of the reserve from revaluation to retained earnings further to amortization.

	30 June 2020	**31 Dec 2019**
Balance at beginning of the period	**96,320,962**	**99,575,840**
Net increases from revaluation	-	-
Decrease	(1,231,282)	(3,260,963)
Others	338	6,085
Balance at end of the period	**95,090,018**	**96,320,962**

At 30 June 2020, the Company also recorded **other reserves and equity elements** in amount of 65,059,131 lei, of which its own financing sources represent 98%.

	30 June 2020	**31 Dec 2019**
Balance at beginning of the period	**63,389,766**	**61,957,912**
Increase	1,669,403	1,768,356
Decrease	(38)	(336,502)
Balance at end of the period	**65,059,131**	**63,389,766**

15. RETAINED EARNINGS

At 30 June 2020, the retained result derived from the transfer of revaluation reserves due to amortized/depreciated or decommissioned assets was 1.231.282 lei.

In the AGOA of Electromagnetica held on 28 April 2020, the allocation of the amount of Lei 2,704,155 was approved for the payment of dividends related to the year 2019 (namely Lei 0.004 /share).

16. INVESTMENT SUBSIDIES

	Total	**under one year**	**over one year**
Investment subsidies at 30 June 2020	4.352.593	163.219	4.189.374

	Total	**under one year**	**over one year**
Investment subsidies at 31 December 2019	4.573.525	163.219	4.410.306

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

16. INVESTMENT SUBSIDIES (continued)

In 2012, the Company benefited from an investment subsidy of 5,997,788 lei granted for the modernisation of the micro-hydroelectric plant in Brodina 2 (Suceava), which will be transferred to revenue concomitantly with the recording of the amortisation of the non-current assets purchased under this project. The net carrying amount of the non-current assets purchased with this subsidy is presented in Note 4.

17. PROVISIONS

Name	Balance 01/01/2020	Inflows (set-up)	Outflows (cancellation)	Balance 30/06/2020
Provisions for performance guarantees to customers	1,148,682	-	(28,682)	1,120,000
Provisions for liabilities and charges	56,130	-	(24,690)	31,440
Provision for Employee Benefits	626,020	-	(181,405)	444,615
TOTAL	**1,830,832**	**-**	**(234,777)**	**1,596,055**

The Company has contracts signed for the delivery of lighting units, which include a guarantee clause for longer periods, respectively 2 - 4 years. These contracts do not lay down a percentage or an amount for the performance guarantee, the related provision being calculated according to the analysis of the history of costs, made on the products under warranty.

18. TRADE PAYABLES AND OTHER LIABILITIES

	30 June 2020	31 December 2019
Current trade payables		
Internal trade payables	10,280,640	8,827,934
External trade payables	5,553,968	2,836,983
Estimated trade payables	11,120,538	15,388,430
Other current payables		
Advances received from customers	550,276	966,937
Salaries and social security contributions	2,423,582	3,589,075
Deferred income	1,712,646	1,847,267
Other liabilities	18,013,584	13,072,053
Total trade receivables and other payables	**49,655,234**	**46,528,679**

Liabilities are recorded at nominal value and are accounted for in the cost accounting for each natural or legal person. The liabilities denominated in foreign currency were measured based on the exchange rate applicable at the end of the period and the exchange rate difference was recognized as income or expense for the period.

The Group does not have significant outstanding trade payables.

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

18. TRADE PAYABLES AND OTHER LIABILITIES (continued)

The Group does not have outstanding liabilities to employees and the state budget; the amounts presented represent liabilities for June 2020, which are paid on the due date, in July 2020.

At 30 June 2020, the Group has several credit agreements approved. These are presented in Note 27 to these financial statements.

Other debts include guarantees received from lessees, VAT to be paid, other taxes and levies and fines received further to the decisions of the Competition Council amounting to Lei 9,021,308. For this amounts the Company requested suspension by ANAF according to art. 235 of the Fiscal Procedure Code.

The guarantees received from lessees and those withheld from suppliers at 30 June 2020 amount to 2.717.505 lei and will be regularised under the contract terms.

	Total	**Under one year**	**Over one year**
Guarantees received in 2020	2,717,505	1,257,862	1,459,643
	Total	**Under one year**	**Over one year**
Guarantees received in 2019	2,740,439	1,475,436	1,265,003

19. INCOME

	January - June 2020	**January - June 2019**
Income	**165,894,420**	**109,382,152**
- Income from sold production	35,245,076	41,889,774
- Rental income	8,698,051	8,255,143
- Income from sale of goods	121,951,293	59,237,236
Investment income	**151,284**	**175,284**
- Interest income	151,284	175,284
- Net income from fair value meaurement of investment property	-	-
	-	-
Variation in stocks of finished goods and work in progress	4,706,126	10,565,235
Own work capitalized	821,628	380,417
Other revenues / (expenses)	**2,057,993**	**3,626,604**
- Income from subsidies	81,609	81,609
- Net provisions	119,647	2,327,922
- Net foreign exchange difference	9,853	190,201
- Other income	1,846,884	1,026,872
Net income	**173,631,451**	**124,129,692**

Net provisions represent revenues from adjustments for inventories and receivables impairment as well as revenues/expenses related to provisions for performance bonds granted to customers.

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

20. EXPENSES

	January - June 2020	January - June 2019
Expenses related to materials	**132,822,552**	**73,916,931**
- Raw materials and consumables	21,931,181	25,526,277
- Goods purchased for resale	109,254,746	46,788,769
- Electricity, heating and water	1,636,625	1,601,885
Expenses related to employees	**17,333,018**	**19,268,272**
- Salaries	9,326,847	11,444,210
- Other personnel expenses	8,006,171	7,824,062
Other expenses	**16,307,995**	**17,041,865**
- Postage	122,642	109,343
- Maintenance and repair	287,695	195,417
- Rental	69,866	133,811
- Advertisement and entertainment	380,179	687,554
- Insurance	274,608	259,352
- Transport and travel	613,549	548,171
- Subcontracted works	2,944,199	3,876,783
- Other taxes and charges	847,449	812,675
- Consultants and collaborators	1,045,229	1,150,583
- Green certificates	4,537,387	6,347,939
- Other operating expenses	5,185,192	2,920,237
Expenses related to depreciation and impairment	**5,229,487**	**4,707,371**
- Depreciation	5,229,487	4,707,371
Total expenses	**171,693,052**	**114,934,439**

”Other operating expenses” highlight the services provided by third parties, bank services and assimilated services, fees and charges, etc.

21. FINANCIAL EXPENSES

	January - June 2020	January - June 2019
- Interest expense	23,073	2,421
- Bank charges	365,403	388,728
Total financial expenses	**388,476**	**391,149**

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

22. INCOME TAX

Income tax recognized in profit or loss:

	30 June 2020	30 June 2019
Current income tax		
Current income tax expense	804,140	1,722,753
Deferred income tax		
Deferred income tax revenue	(297,662)	(656,561)
	506,478	**1,066,192**

Reconciliation between profit before tax and income tax expense in the profit and loss account:

Caption	30 June 2020	30 June 2019
Net accounting profit	**1,028,658**	**7,737,912**
Deductions	(2,148,389)	(2,774,178)
Non-taxable income	(1,708,281)	(3,504,585)
Non-deductible expenses	7,853,887	9,308,060
Taxable profit	5,025,875	10,767,209
Tax loss from previous years	-	-
Current income tax	808,054	1,722,753
Income tax reduction	(3,914)	-
Income tax due at end of period	**804,140**	**1,722,753**

At 30 June 2020, the total current income tax asset was 615,296 lei (on 30 June 2019: Lei 749,083).

Analysis of the deferred income tax for the reporting period:

	Opening balance	Through profit or loss	Through other comprehensive income	Closing balance
Property, plant and equipment	19,864,779	(224,021)	(338)	19,640,420
Effect of time-value of money (receivables)	(391,106)	1,725	-	(389,381)
Impairment of receivables	(793,498)	(106,943)	-	(900,441)
Impairment of inventories	(288,478)	2,551	-	(285,927)
Employee-related benefits	(100,164)	29,025	-	(71,139)
TOTAL	**18,291,531**	**(297,663)**	**(338)**	**17,993,532**

The deferred income tax for non-current assets resulted from various methods and durations of accounting and tax depreciation, while the deferred income tax for revaluation reserves resulted from the revaluation of non-current assets recorded after 1 January 2004, which is taxed concomitantly with the tax depreciation deduction.

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

23. AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	30 June 2020	**30 June 2019**
Group	476	518
Parent compny	413	454

Expenses for related salaries and taxes for H1 years 2020 and 2019:

	January - June 2020	**January - June 2019**
Expenses with salaries	**9,326,847**	**11,444,210**
from witch parent company	8,498,460	11,017,678
Other staff costs	**8,006,171**	**7,824,062**
from witch parent company	7,212,918	7,281,520
Total	**17,333,018**	**19,268,272**
from witch parent company	15,711,378	18,299,198

The Group does not have a special employee pension scheme and contributes to the national pension system under the laws in force.

24. RELATED PARTY TRANSACTIONS

At December 31, 2019 and June 30, 2020, the Group had no related parties apart from the subsidiaries included in the consolidation, Balances and transactions with them were eliminated in the preparation of the consolidated financial statements.

The Group does not have contractual obligations to former managers and directors and did not grant advances or loans to the current managers and directors.

The Group did not undertake future obligations of the nature of guarantees on behalf of its directors.

25. INFORMATION ON SEGMENTS OF ACTIVITY

The Group used as the aggregation criterion for the reporting by operating segments the nature of the regulatory framework and identified the following operating segments for which it presents separate information:

- Licensed activity – electricity supply and production
- Unlicensed activity

The aggregation criterion is based on the license needed for carrying out certain activities and on the conditions imposed by this criterion, among which the presentation of separate financial statements. The electricity production and supply activities are aggregated considering that they represent an integrated process for pat of the operations.

The information by operating segments is reported according to the activities of the Company. The assets and liabilities by operating segments include both the items directly attributable to those segments and the items that can be allocated on a reasonable basis.

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25. INFORMAŢII PE SEGMENTE DE ACTIVITATE (continuare)

Semestrul I 2020	Activitatea nelicenţiată	% Total grup	Activitatea licenţiată	% Total grup	Total grup
Profit net	(2.618.794)	n/a	3.647.452	n/a	1.028.658
Active totale	318.587.339	75,66	102.513.011	24,34	421.100.350
Datorii totale	40.307.848	53,43	35.132.185	46,57	75.440.033
Venituri clienţi	43.116.893	26,00	122.777.527	74,00	165.894.420
Venituri din dobânzi	173.255	100	-	-	173.255
Depreciere şi amortizare	3.224.574	78,89	2.004.913	21,11	5.229.487

Semestrul I 2019	Activitatea nelicenţiată	% Total grup	Activitatea licenţiată	% Total grup	Total grup
Profit net	2.088.956	27,00	5.648.956	73,00	7.737.912
Active totale	334.083.057	78,57	91.125.932	21,43	425.208.989
Datorii totale	51.684.139	62,32	23.102.653	37,68	74.786.792
Venituri clienţi	47.697.782	43,61	61.684.370	56,39	109.382.152
Venituri din dobânzi	175.284	100	-	n/a	175.284
Depreciere şi amortizare	3.742.366	79,50	965.005	20,50	4.707.371

Main products and production structure

The Parent company benefits from various technologies and equipment that make possible to obtain a diversified listing of products. The extent of the main groups of products within the turnover related to the production (except for services) is the following:

LED lighting bodies, systems and solutions

The production of LED lighting items represents an important extent in the turnover of the Company (11.84 %) being the most important component of the company production activity (with a weight of about 57.78 %). The trend of 2020 is represented by the provision of solutions that should make possible the permanent control of light and monitoring of electric parameters. The LED lighting items are integrated in modern lighting management systems made up of the Energsys system, system dimming, surveillance camera that adjusts lighting subject to the car traffic and VE loading stations.

Low voltage electrical switchgear

The production of low voltage electrical switchgear represents an element of continuity and stability within the export production (64% of total production). The values in S1 2020 are close to those in S1 2019, due to firm orders and the recognition of the fact that the foreign partner appreciates the quality of our products and desires continuity in deliveries.
Most of this activity is automated and robotised.

Plastic injection and moulds

Electromagnetica benefits from a wide range of technologies, which enables the Company to manufacture plastic injection moulded subassemblies for both the internal market and export. The Company currently owns 24 machines, most manufactured products being auto parts.
The production of plastic injection moulded subassemblies and moulds increased by 17.74% as compared to the same period in 2019. This group of products has the second largest share of the exports of the Company, i.e. 16.81% of total exports. The production of plastic injection moulded subassemblies also benefits from the on-site manufacture and repair of the moulds.

25. INFORMAŢII PE SEGMENTE DE ACTIVITATE (continuare)

Railway traffic safety components

The sales of railway traffic safety components were relatively stable (+ 2%) due to constant orders from renowned companies who are working on the maintenance and modernization of CFR infrastructure. The future evolution of this product category broadly depends on the timetable for the modernization of the railway infrastructure.

Production of electricity from renewable sources

Energy production is a field governed by ANRE, the company holding the license of producer since 2007. Approximately 40 % of the need of green certificate required to supply energy were assured by the green certificates related to its own energy production.
In S1 2020 due to the extreme draught that affected the entire territory of Romania electricity production decreased significantly as compared to the average of the last years and generated revenues lower by 36% than in S1 2019.

Electricity supply activity

The supply of electricity is regulated by ANRE. The Company has been an authorized supplier since 2001; in 2013 the license was renewed for another 10 years, under the provisions of the new energy law (Law no. 123/2012).

In 2020, energy prices decreased compared to 2019, the main factor being the decreased consumption as of Q2 due to the COVID-19 pandemic and the energy in excess on the market. Decreased consumption by end customers was compensated by an increase in the trading activity on the wholesale energy market, therefore, overall, the turnover from the supply activity increased by more than 100% as compared to the same period in 2019.

Renting and utilities supply services

Electromagnetica manages approximately 33,000 square meters of premises to be leased in Bucharest and 3,500 square meters in Varteju, Ilfov county. At 30.06.2020, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 92.78%, lower by 5% than in the same period of the previous year, while the average rental price was 7.55 euro/square meter, as compared to 7.03 euro/square meter in the previous year. For the premises in Varteju commune (Magurele), the level of occupation was 73.86% as compared to 100% in the same period of the previous year, while the average rental price was 1.75 euro/square meter, as compared to 2.03 euro/square meter in 2019. The rental level decreased due to the economic crisis caused by the pandemic, but much less than the vacancy rate in Bucharest, estimated at 12-13%. The price per square meter increased as a result of negotiations at the end of the previous year.

26. RISK MANAGEMENT

The Group is exposed to the following risks:

Equity risk

Equity risk management aims to ensure the capacity of the Company to carry out its activities in good conditions, through the optimization of the capital structure (equity and debts). The analysis of the capital structure is focused on the cost of capital and the risk associated to each category. In order to maintain an optimal capital structure and an appropriate indebtedness, in the last years the Company has proposed an adequate dividend policy to its shareholders, which would ensure its own financing sources. The absence of financing sources can limit the development of the Company on the market segments where sales are supported by commercial facilities offers.

The Group monitors capital based on the debt ratio. This indicator is calculated as the ratio of the net debt and the total capital employed. The net debt is calculated as the sum of the total loans, total

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26. RISK MANAGEMENT (continued)

suppliers and other liabilities (as presented in the statement of the financial position) less the cash and cash equivalents. The total capital employed is determined as the sum of the net debt and equity (as presented in the financial position).

The debt ratio at 30 June 2020 was:

	30 June 2020	31 December 2019
Total loans (IFRS 16 leasing debt)	219,757	226,273
Suppliers and other current liabilities	49,655,234	46,528,679
Less: Cash and cash equivalents	(23,682,951)	(26,219,284)
Net current liabilities/(assets)	**26,192,040**	**20,535,668**
Equity	**345,403,769**	**347,093,926**
TOTAL BORROWED CAPITAL	**371,596,809**	**367,629,594**
Gearing ratio	**7,58%**	**5,92%**

Credit risk

Credit risk is the possibility that contracting parties breach their contractual obligations resulting in financial loss for the company. When possible and allowed by market practices, the company requests guarantees. Trade receivables derive from a wide range of customers operating in various fields of activity and different geographical areas. To counteract this risk factor, the company applied restrictive policies to the delivery of products to doubtful customers. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency. The company is paying more attention to the creditworthiness and financial discipline of its contractual partners.

	30 June 2020	31 December 2019
Trade receivables (TL and TS)	85,880,543	79,909,762
Other receivables (TL and TS)	3,445,198	2,738,768
Cash and cash equivalents	23,682,951	26,219,735
	113,008,692	**108,868,265**

Market risk

The market risk consists of: the risk of changes in interest rates, exchange rates, and merchandise purchase price.

The risk related to **changes in interest rates** is controlled due to the Company's investment policy according to which investments are exclusively covered by own sources of funding, therefore credit lines are only used for short periods.

The Company is exposed to **foreign exchange risk** because the supply of materials mainly comes from import and the share of the export increased. To limit the effect of foreign exchange, the payment schedule was correlated with the proceeds in foreign currency, the company usually recording cash-flow surplus. The Company monitors and manages on a permanent basis its exposure to exchange rate differences.

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26. RISK MANAGEMENT (continued)

The foreign currencies most frequently used in transactions are EUR and USD, and MDL, respectively. The assets denominated in foreign currencies are represented by customers and available cash in foreign currency. The liabilities denominated in foreign currency are represented by suppliers.

At 30 June 2020, their situation is as follows:

	Assets	Liabilities	Net exposure
EUR	1.791.001	629.018	1.161.983
USD	60.124	76.480	(16.356)
MDL	1.515.061	-	1.515.061

At 31 December 2019, their situation is as follows:

	Assets	Liabilities	Net exposure
EUR	2.775.954	477.370	2.298.584
USD	19.067	130.371	(111.304)

The analysis of the foreign exchange risk sensitivity for a +/- 10% % variation in the exchange rate shows and impact on the gross result of the period of +/- 593.321 lei.

This analysis shows the exposure to the translation risk at the end of the year; however, the exposure during the year is permanently monitored and managed by the Group.

The **price risk** includes the risk of price change for the purchase of goods, the exchange rate and the interest rate. Among the markets where Group is present, the energy market has the highest price risk, considering the volatility of prices on the Day ahead market and the Balancing market, as well as the absence of mechanisms for long-term risk cover. The behaviour of electricity producers, namely to sell as much as possible on the spot market can increase the price risk on this market. For the control of the price risk on energy market measures were taken to mitigate the company exposure by maintaining an optimum customer portfolio.

The Group is exposed to an exchange rate risk because it largely procures materials from import. To limit the effect of foreign exchange, the payment schedule was correlated with the proceeds in foreign currency, the company usually recording cash-flow surplus. The change of prices for production supplies and materials imposed a continuous review of the cost prices. To maintain the profitability of certain products, action was taken at the level of suppliers in order to control prices and the related technological processes were improved.

Liquidity and cash flow risk

The company cash flow department prepares forecasts on the liquidity reserve and maintains the appropriate level of credit facilities in order to be able to prudently manage the liquidity and cash flow risks. At the same time, investments were limited to own sources of funding and to those with direct impact on the turnover. The liquidity and cash flow risk management policy must be adapted to the new and more exigent commercial practices. This risk is closely related to the risks described before.

Trade receivables and payables by maturity:

	30 June 2020	0 - 1 year	1 - 2 years	2 - 5 years	> 5 years
Trade receivables and other receivables	86,700,621	62,513,424	13,080,645	11,106,552	-
Trade payables and other liabilities	49,655,234	47,009,358	2,645,876	-	-

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

26. RISK MANAGEMENT (continued)

	31 December 2019	0 - 1 year	1 - 2 years	2 - 5 years	> 5 years years
Trade receivables and other receivables	80,757,315	55,855,509	13,899,307	11,002,499	-
Trade payables and other liabilities	45,206,201	43,753,920	1,452,281	-	-

Fair value hierarchy for financial assets and liabilities

30 June 2020	Carrying	Amount fair value	Level
Financial assets			
Trade receivables	85,880,543	85,880,543	Level 1
Cash and cash equivalents	23,682,951	23,682,951	Level 1
Other current assets	2,829,902	2,829,902	Level 1
	112,393,396	**112,393,396**	

30 June 2020	Carrying	Amount fair value	Level
Non-current financial liabilities			
Trade payables and other liabilities	1,613,386	1,613,386	Level 1
	1,613,386	**1,613,386**	
Current financial liabilities			
Trade payables	49,721,248	49,721,248	Level 1
	49,721,248	**49,721,248**	Level 1
	Level 1		

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26. MANAGEMENTUL RISCULUI (continuare)

31 decembrie 2019	**Carrying**	**Amount fair value**	**Level 1**
Financial assets			
Trade receivables	79,909,762	79,909,762	Level 1
Cash and cash equivalents	26,219,735	26,219,735	Level 1
Other current assets	1,989,685	1,989,685	Level 1
	108,119,182	**108,119,182**	

31 decembrie 2019	**Carrying**	**Amount fair value**	**Level 1**
Non-current financial liabilities			
Trade payables and other liabilities	1.452.281	1.452.281	Level 1
	1.452.281	**1.452.281**	
Current financial liabilities			
Trade payables	46.567.674	46.567.674	Level 1
	46.567.674	**46.567.674**	

Calamity risk

The production of electricity in low power plants without dams is subject to destruction risk caused by floods. Under these circumstances, the company concluded insurance policies to protect MHPs and against disasters.

Risk related to the lack of skilled human resources:

Although the COVID 19 pandemic generated important redundancies, the company is still confronted with the lack of skilled personnel.

General framework for risk management

The Board of Directors of the Company has the general responsibility for the establishment and supervision of the risk management framework at Company level.

The activity is governed by the following principles:

a. the principle of delegation;
b. the principle of decision-making autonomy;
c. the principle of objectivity;
d. the principle of investor protection;
e. the principle of promotion of the development of the stock market;
f. the principle of the active role.

The Board of Directors is also responsible for the review and approval of the strategic, operational and financial plan of the Company and the Company corporate structure.

The risk management policies of the Company are defined to ensure the identification and analysis of the risks the Company is confronted with, determine the appropriate limits and control and monitor the risks

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26. MANAGEMENTUL RISCULUI (continuare)

and compliance with the limits set. The risk management policies and systems are regularly reviewed to reflect the changes occurred in the market conditions and the activities of the Company. Through its training and management standards and procedures, the Company aims to develop an orderly and constructive control environment where all employees understand their roles and duties.

The internal audit of the Company entities supervises the manner in which the management monitors the compliance with the risk management policies and procedures and reviews the appropriateness of the risk management framework against the risks the entities are confronted with.

27. ANGAJAMENTE ŞI DATORII POTENŢIALE

Commitments

On 30 June 2020, the Company had commitments granted by four financing banks, as follows:

- for bank loans in the form of overdraft for working capital amounting to 18,090,000 RON;
- non-cash collateral agreements amounting to 42,000,000 RON.

On 30 June 2020, the Company had at its disposal the amount of 16,230,265 RON not withdrawn from the loan facilities contracted with banks.

On 30 June 2020, the Company had at its disposal the amount of 19,449,069 RON not used from the non-cash facilities for letters of guarantee.

According to the ongoing loan contracts, the Company is subject to meeting certain conditions imposed by the banks. On 30 June 2020, the Company met all the financial indicators imposed under the financing contracts.

The commitments granted to the Company are secured by accounts opened with the lending banks, collateral deposits amounting to 90,000 RON, tangible assets (land, buildings) amounting to 112,515,003 RON (Note 4).

The commitments from customers and tenants as letters of guarantee at 30 June 2020 amount to 3,859,875 RON according to contract terms.

Litigation

The disputes in which the Company is involved do not refer to such amounts that could affect its financial stability.

28. SUBSEQUENT EVENTS

The management is not aware of any events, economic changes or other factors of uncertainty that could significantly affect the company revenues or liquidities, other than the ones mentioned herein.

These consolidated financial statements were approved for disclosure by the management at 13 August 2020.

Eugen Scheuşan	**Cristina Florea**
Managing Director	**Chief Financial Officer**