

ELECTROMAGNETICA SA

**SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

**Prepared in accordance with
Ministry of Public Finance Order no. 2844/2016 approving the Accounting Regulations compliant with
International Financial Reporting Standards as adopted by the European Union**

(Together with Independent Auditor's Report and Administrators' Report)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders,
ELECTROMAGNETICA S.A.

Opinion

1. We have audited the separate financial statements of ELECTROMAGNETICA S.A. ("the Company"), with registered office in Bucharest Sector 5, 266-268 Rahova Blvd, identified by the unique tax registration code 414118, which comprise the separate statement of financial position as at December 31, 2020, and the separate statement of comprehensive income, separate statement of changes in equity and the separate statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the financial statements.
2. The separate financial statements as at December 31, 2020 are identified as follows:

• Net assets	RON 335,223,960
• Net profit for the financial year	RON 2,324,301
3. In our opinion, the accompanying financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2020, and its separate financial performance and its separate cash flows for the year then ended in accordance with the Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named "the Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters to be communicated in our report.

Other information- Administrators' Report

6. The administrators are responsible for preparation and presentation of the other information. The other information comprises the Administrators' report which does not include the separate financial statements and our auditor's report thereon, nor the non-financial information declaration that is being presented in a separate report.

Our opinion on the financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements for the year ended December 31, 2020, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Administrators' report, we read it and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, with subsequent amendments.

On the sole basis of the procedures performed within the audit of the financial statements, in our opinion:

- a) the information included in the administrators' report for the financial year for which the financial statements have been prepared is consistent, in all material respects, with these financial statements;
- b) the administrators' report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the EU, with subsequent amendments.

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the financial statements prepared as at December 31, 2020, we are required to report if we have identified a material misstatement of this Administrators' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

7. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
8. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
9. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

10. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
 13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
 14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

15. We have been appointed by the General Assembly of Shareholders on April 28, 2020 to audit the financial statements of Electromagnetica S.A. for the financial year ended December 31, 2020. The uninterrupted total duration of our commitment is of 5 years, covering the financial years ended December 31, 2016 until December 31, 2020.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- No non-audit services referred to in Article 5 (1) of EU Regulation No. 537 / 2014 were provided.

The engagement partner on the audit resulting in this independent auditor's report is Zeno Căprariu.

Zeno Căprariu, Audit Partner

*For signature, please refer to the original
Romanian version.*

*Registered in the Electronic Public Register of Financial
Auditors and Audit Firms under AF 2693*

On behalf of:

DELOITTE AUDIT SRL

*Registered in the Electronic Public Register of Financial
Auditors and Audit Firms under FA 25*

The Mark Building, 84-98 and 100-102 Calea Griviței,
8th Floor and 9th Floor, District 1
Bucharest, Romania
March 24, 2021

ELECTROMAGNETICA SA
SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

	Note	12-month period ended December 31, 2020	12-month period ended December 31, 2019
Revenues	20	283.151.730	256,169,132
Investment income	20	932,082	1,018,418
Other net income and expenses	20	10,794,514	6,802,816
Changes in inventories of finished goods and work in progress	20	7,934,317	13,389,266
Own work capitalized	20	1,481,686	772,403
Raw materials and consumables used	21	(219,528,624)	(188,946,222)
Employee-related expenses	24	(30,490,094)	(36,494,887)
Expenses related to depreciation and impairment		(10,199,234)	(10,183,159)
Other expenses	21	(37,943,201)	(36,706,154)
Financial expenses	22	(3,947,166)	(840,410)
Profit before tax		2,186,009	4,981,203
Income tax	23	138,292	(492,516)
Profit of the period		2,324,301	4,488,687
Other comprehensive income			
of which:			
other comprehensive income that cannot be reclassified to profit or loss, of which:			
- revaluation surplus for tangible assets			-
- deferred tax recognized in equity	23		-
- restatement of deferred tax for revaluation of assets written off		338	6,085
Comprehensive income for the period		2,324,639	4,494,772
Basic/diluted earnings per share	26	0,0034	0.0066

These separate financial statements were approved for issue by the management as at March 24, 2021:

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Economic Manager

The accompanying notes form an integral part of these separate financial statements
This is a free translation from the original Romanian version.

ELECTROMAGNETICA SA
SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

	Note	December 31, 2020	December 31, 2019
ASSETS			
Non-current assets			
Property, plant and equipment	4	275,703,825	277,545,153
Investment property	5	11,114,654	5,182,279
Intangible assets	6	291,521	466,487
Investments in related entities	8	841,408	3,967,606
Other long-term non-current assets	9	19,804,010	24,702,276
Assets related to the rights of use	7	2,085,114	1,480,078
Total non-current assets		309,840,532	313,343,879
Current assets			
Inventories	10	13,402,675	15,411,327
Trade receivables	11	58,611,348	55,114,158
Cash and cash equivalents	13	20,108,460	21,711,183
Other current assets	12	1,882,350	1,939,785
Current tax assets	23	949,937	760,012
Total current assets		94,954,770	94,936,464
Total assets		404,795,302	408,280,342
EQUITY AND LIABILITIES			
Equity			
Share capital	14	67,603,870	67,603,870
Reserves and other equity	15	176,146,894	176,697,881
Retained earnings	16	91,473,196	91,301,725
Total equity attributable to company's shareholders		335,223,960	335,603,476
Non-current liabilities			
Trade payables and other liabilities	19	1,168,772	1,265,003
Investment subsidies	17	4,247,088	4,410,306
Deferred tax liabilities	23	16,735,345	17,333,187
Leasing debts	7	1,312,782	728,164
Total non-current liabilities		23,463,987	23,736,660
Current liabilities			
Trade payables and other liabilities	19	42,982,576	46,268,240
Investment subsidies	17	163,219	163,219
Provisions	18	2,156,891	1,806,142
Current income tax liabilities	23	-	-
Leasing debts	7	804,669	702,605
Total current liabilities		46,107,356	48,940,206
Total liabilities		69,571,343	72,676,866
Total equity and liabilities		404,795,303	408,280,342

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ELECTROMAGNETICA SA
SEPARATE STATEMENT OF CASH FLOWS
FOR THE 12-MONTH PERIOD ENDED DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

	Note	12-month period ended December 31, 2020	12-month period ended December 31, 2019
Cash flows from operating activities			
Cash receipts from customers		269,512,673	257,825,474
Payments to suppliers		(213,497,721)	(190,371,032)
Payments to employees		(30,210,304)	(35,213,731)
Other operating activities		(23,666,376)	(34,430,544)
		2,138,272	(2,189,833)
Cash generated by/ (used in) operating activities			
Interest paid		(25,010)	(15,081)
Income tax paid		(649,137)	(2,161,915)
		1,464,125	(4,366,829)
Net cash used in operating activities			
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(844,660)	(954,771)
Proceeds from sale of non-current-assets		46,529	96,015
Interest received		298,949	456,745
Dividends received		637,245	658,487
		138,063	256,476
Net cash used in investing activities			
Cash flows from financing activities:			
Proceeds from loans		43,070,898	17,703,891
Cash repayments of amounts borrowed		(43,070,898)	(17,703,891)
Paid leasing		(1,250,651)	(648,029)
Interest paid		(83,838)	(86,330)
Dividends paid		(1,870,422)	(2,606,419)
		(3,204,911)	(3,340,778)
Net cash used in financing activities			
Net (decrease)/increase of cash and cash equivalents			
		(1,602,723)	(7,451,132)
Cash and cash equivalents at beginning of period			
		21,711,183	29,162,314
	12		
Cash and cash equivalents at end of period			
		20,108,460	21,711,183
	12		

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Economic Manager

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ELECTROMAGNETICA S.A.
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Tangible assets revaluation reserve</u>	<u>Other reserves</u>	<u>Legal reserve</u>	<u>Other equity items</u>	<u>Total equity</u>
Balance as of January 1, 2020	67,603,870	91,301,725	113,135,988	62,841,298	19,680,554	(18,959,960)	335,603,476
Comprehensive income for the period:							
Profit of the period	-	2,324,301	-	-	-	-	2,324,301
Other comprehensive income:							
Setup of legal reserve	-	(249,060)	-	139,760	109,300	-	-
Deferred tax recognized in equity	-	-	-	-	-	338	338
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets or written off assets	-	2,335,856	(2,335,856)	-	-	-	-
Transfer of the retained earnings to reserves	-	(1,535,471)	-	1,535,471	-	-	-
Total comprehensive income for the period	-	2,875,626	(2,335,856)	1,675,231	109,300	338	2,324,639
Transactions with shareholders, directly registered to equity							
Dividends distributed	-	(2,704,155)	-	-	-	-	(2,704,155)
Other items	-	-	-	-	-	-	-
Balance as of December 31, 2020	67,603,870	91,473,196	110,800,133	64,516,529	19,789,854	(18,959,622)	335,223,960

These separate financial statements were approved for issue by the management as at March 24, 2021.

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Economic Manager

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ELECTROMAGNETICA S.A.
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Tangible assets revaluation reserve</u>	<u>Other reserves</u>	<u>Legal reserve</u>	<u>Other equity items</u>	<u>Total equity</u>
Balance as at January 1, 2019	67,603,870	88,933,828	115,838,396	60,971,315	19,431,494	(18,534,593)	334,244,312
Comprehensive income for the period:							
Profit of the period	-	4,488,687	-	-	-	-	4,488,687
Other comprehensive income:							
Setup of legal reserve	-	(401,175)	-	152,115	249,060	-	-
Deferred tax recognized in equity	-	-	-	-	-	6,085	6,085
Transfer of revaluation reserve to retained earnings following the depreciation of revalued tangible assets or written off assets	-	2,702,408	(2,702,408)	-	-	-	-
Transfer of the retained earnings to reserves	-	(1,717,868)	-	1,717,868	-	-	-
Total comprehensive income for the period	-	5,072,052	(2,702,408)	1,869,983	249,060	6,085	4,494,772
Transactions with shareholders, directly registered to equity							
Dividends distributed	-	(2,704,155)	-	-	-	-	(2,704,155)
Other items	-	-	-	-	-	(431,452)	(431,452)
Balance as at December 31, 2019	67,603,870	91,301,725	113,135,988	62,841,298	19,680,554	(18,959,960)	335,603,476

These separate financial statements were approved for issue by the management as at March 24, 2021:

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Economic Manager

The accompanying notes form an integral part of these separate financial statements
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ELECTROMAGNETICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

1. GENERAL INFORMATION

ELECTROMAGNETICA SA is organized under the Romanian law, which was set up in 1930 and carries out activities in several sectors, out of which the most important are:

- production of LED lighting systems, tools, and molds;
- rental premises for offices, industrial sites, land and supply of utilities;
- electricity supply activity;
- production of electricity from renewable sources (produced in small power hydroelectric plants).

The production processes and products of Electromagnetica were certified under the international quality management standards, The main products are:

- LED lighting systems
- electricity distribution and corresponding measurement equipment
- electrical and electronic subassemblies, automotive parts etc,
- tools and molds
- metal and plastic subassemblies
- railway traffic safety equipment
- electricity from renewable sources (produced in small power hydroelectric plants)

The Company is headquartered in the 5th District, 266-268 Calea Rahovei , Bucharest.

Electromagnetica is listed on the Bucharest Stock Exchange (symbol ELMA). The prices per share can be analyzed as follows:

	Jan – Dec 2020	Jan – Dec 2019
- minimum price	0.1040	0.1275
- maximum price	0.1660	0.1675
- average price	0.1231	0.1447

The evolution of the average number of employees of Electromagnetica was as follows:

	Jan – Dec 2020	Jan – Dec 2019
Average number of employees	387	454

These financial statements are compliant with IAS 27 – Separate financial statements prepared as at December 31, 2020 and for the periods presented. The Company also prepares consolidated financial statements as it has investments in subsidiaries.

The details of the Company's investments in subsidiaries at December 31, 2020 are:

Numele filialei	No, of securities	Ownership and voting right percentage (%)	Value
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			841,408

The information on the object of activity and the general presentation of subsidiaries is found in Note 24.

ELECTROMAGNETICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

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

Initial application of new amendments to the existing standards effective for the current reporting period:

The following new standards, amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020)
- **Amendments to IFRS 3 “Business Combinations” – business definition** – adopted by EU at 21st April 2020 (in force for business combinations starting after the first annual reporting period after January, 2020 and for asset acquisition that occur on or after the beginning of that period).
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 16 “Leasing”** – renting facilities related to COVID-19(adopted by EU in October 9, 2020 with effect starting 1st of June 2020 for the annual reporting periods on or after January 1st, 2020.
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Company’s financial statements.

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

- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance contracts and IFRS 16 “Leasing”**- Interest Rate Benchmark Reform – Phase 2, adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU.

At the date of authorization of these financial statements, the following new standards and amendments to existing standards and new interpretation were in issue but not yet effective:

- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Presentations”, IFRS 4 “Insurance Contracts” and IFRS 16 “Leases”** - Reform of the Reference Rate interest - Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **Amendments to IAS 1 “Presentation of Financial Statements”** – presentation of the accounting policies (in force for the annual periods on or after 1st of January, 2023).
- **Amendments to IAS 1 “Presentation of Financial Statements”** – Current and non current debts classification (in force for the annual periods on or after 1st of January, 2023).

ELECTROMAGNETICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

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

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)

- **Amendment to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** – Definition of accounting provisions (in force for the annual periods on or after 1st of January, 2023).
- **Amendments to IAS 16 – “Tangible assets”** – Revenue before intended use (in force for the annual periods on or after 1st of January, 2022).
- **Amendments to IAS 37 – “Provisions, contingent liabilities and contingent assets”** – Onerous contracts – the cost of a contract (in force for the annual periods on or after 1st of January, 2022).
- **Amendments to IFRS 3 “Business Combinations”** - Reference to the conceptual frame of amendments to IFRS 3 (in force for the annual periods on or after January, 2023).
- **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 its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).
- **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), mainly in order to eliminate inconsistencies and ambiguity (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 to an illustrative example only, so no effective date is disclosed.)

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application.

More details about individual standards, amendments to existing standards and interpretations that can be used as appropriate:

- **IFRS 14 “Regulatory Deferral Accounts”** issued by IASB on 30 January 2014. This standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS.
- **Amendments to IFRS 3 “Business Combinations”** - Business Definition, issued by the IASB on October 22, 2018. Amendments have been introduced to improve the definition of a business. The amended definition emphasizes that the output of an enterprise is to provide goods and services to customers, while the previous definition focused on dividend yields, reduced costs or other economic benefits for investors and others. In addition to changing the text of the definition, the Council provided additional guidance.
- **Amendments to IFRS 3 “Business Combinations”** - Reference to the Conceptual Framework with amendments to IFRS 3 issued by the IASB on May 14, 2020. Amendments: (a) update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the one in 1989 (b) add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer apply IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities that he 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”, IAS 39 „Recognition and evaluation of financial instruments and IFRS 7 „Financial instruments - disclosures”** - Reform of the interest rate reference issued by the IASB on September 26, 2019.

ELECTROMAGNETICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(all amounts are expressed in RON, unless otherwise specified)

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

Changes in interest rate reform:

- a) To amend the specific hedge accounting requirements, so that entities will apply those hedge accounting requirements, assuming that the reference interest rate value on which the cash flows are based and that the cash flows in the hedging instrument will not be amended as a result of the reform of the reference interest rate;
 - b) are mandatory for all relationships that are directly affected by the interest rate reference reform;
 - c) are not intended to provide exemptions from any other consequences arising from the reform of the interest rate reference (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, it is necessary to discontinue hedge accounting); and
 - d) requires specific disclosures about the extent to which the entities' hedging relationships are affected by changes.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 - Investments in associates and joint ventures** - the sale or contribution of assets between the investor and a partner or joint venture was issued by the IASB on September 11, 2014 (On December 17, 2015, the IASB postponed the effective date indefinitely. The amendments show the existence of a conflict between the requirements of IAS 28 and IFRS 10 and clarify the situation of a transaction with a partner in respect to the recognition of gains or losses whether the asset is sold or capitalized.
 - **Amendments to IFRS 16 "Leases"** Covid-19 leases issued by the IASB on May 28, 2020. The amendments exempt tenants from having to consider individual leases to determine whether leases occur as a direct consequence of the covid-19 pandemic or changes in leases that allows tenants to take into account such rental concessions as if there were no rental changes. It applies to covid-19 rental concessions that reduce rental payments due until or before June 30, 2021.
 - **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of material issued by the IASB on 31 October 2018. The regulation clarifies the definition of material and how it should be applied by inclusion in the definition guide.
 - **Amendments to IAS 1 "Presentation of Financial Statements" - Classification of current or long-term liabilities issued by the IASB on January 23, 2020.** The amendments provide a more general approach to the classification of liabilities in accordance with IAS 1 based on the contractual arrangements in effect at the reporting date. Amendments to IAS 1 issued by the IASB on July 15, 2020 postpone the effective date by one year for annual periods beginning on or after January 1, 2023.
 - **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure of accounting policies issued by the IASB on February 12, 2021. The amendments require entities to present their accounting policies with material impact, rather than their significant accounting policies, and to provide guidance and examples to help preparers decide which policies to present in the financial statements.
 - **Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors"** - Definition of accounting estimates issued by the IASB on 12 February 2021. The amendments focus on accounting estimates and provide guidance to distinguish between accounting policies and accounting estimates.
 - **Amendments to IAS 16 "Tangible assets"** - Pre-use income issued by the IASB on May 14, 2020. The amendments prohibit the deduction from the cost of an item of property, plant and equipment of all proceeds from the sale of items produced while bringing that asset to the location and condition necessary for it. to be able to operate in the desired driving mode. Instead, an entity recognizes revenue from the sale of those items and the cost of producing those items, in profit or loss.
 - **Amendments to IAS 37 "Provisions, contingent liabilities and contingent assets" - Onerous contracts** - Cost of performing a contract issued by the IASB on 14 May 2020. The amendments specify that the "cost of performing" of a contract includes "costs directly related to the contract". Costs that relate directly to a contract may be either incremental costs for the performance of that contract, or an allocation of other costs that directly relate to the performance of the contracts.

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

- **Amendments to various standards due to “Improvements to IFRSs (2018-2020 cycle)”**, issued by the IASB on May 14, 2020. Amendments to various standards resulting from the annual IFRS improvement project (IFRS 1, IFRS 9, IFRS 16 and IAS 41) mainly to remove inconsistencies and clarify the wording. Amendments: (a) clarify that a subsidiary that applies paragraph D16 (a) of IFRS 1 is authorized to measure cumulative translation differences using the amounts reported by its parent based on the date of transition to IFRSs (IFRS 1); (b) clarify what fees an entity includes when applying the "10 percent" test in point B3.3.6 of IFRS 9 to assess whether it is a debt arrear. 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 landlord's reimbursement of location improvements to resolve any potential confusion regarding the treatment of rental incentives that may arise due to the way rental incentives are illustrated (illustrative example 13 accompanying IFRS 16) ; and (d) eliminates 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).
- **Amendments to References in the Conceptual Framework of IFRS Standards** issued by the IASB on March 29, 2018. Due to the fact that this conceptual framework has been revised, the IASB has 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 to support the transition to the revised conceptual framework for companies that develop accounting policies using the conceptual framework when no IFRS standard is applied to a particular transaction.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The separate financial statements of the Company were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the reporting date, i.e, December 31, 2019, and in compliance with Order of the Minister of Public Finance no, 2844/2016 approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to the 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.

Functional and presentation currency

These separate financial statements are presented in RON, which is the Company's functional currency.

Basis of preparation

The separate financial statements were prepared at 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.

Property, plant and equipment are presented at revaluation amount (IAS 16) and investment property are presented at fair value (IAS 40).

For obsolete or slow moving inventories, adjustments are made based on the management's estimates, The set up and reversal of allowances for inventories impairment is made usually at the end of the quarter in the profit and loss account: for obsolete inventories at 50% of the total value and for slow moving inventories at 25%.

In its first financial statements prepared in compliance with IFRS the Company applied IAS 29 – Financial Reporting in Hyperinflationary Economies and adjusted the historical cost of share capital, legal reserves and other reserves set up from the net profit by the effect of inflation until December 31, 2003. These adjustments were recorded in reserve accounts (see Note 15).

The Company also prepares consolidated financial statements in accordance with IFRS adopted by the EU, which are available on the Company's website. These are presented at the same time as the separate financial statements.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency

The operations expressed in foreign currency are recorded in RON, 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 RON, 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 semester are recognized in the profit or loss for the period, The non-monetary assets and liabilities measured at historical cost in foreign currency are recorded in RON, at the exchange rate of the transaction date, The non-monetary assets and liabilities denominated in foreign currency and measured at fair value are recorded in RON, 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.

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

	Exchange rate as at December 31, 2020	Exchange rate as at December 31, 2019
EUR	4.8694	4.7793
USD	3.9660	4.2608

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 recognized 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 recognized as revenue or expense in the current period. The effect on the future periods, if any, is recognized as revenue or expense in the corresponding future periods.

The Company's management considers that the possible differences in relation to these estimates will not affect significantly the financial statements in the near future, for each estimation the principle of prudence is applied.

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, the intangible assets are analyzed to identify indication 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 recognized 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 recognized.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The evaluation of the impairment loss on receivables is individual and relies on the best estimate of the management regarding the present value of the cash flows expected to be received. The Company reviews its trade receivables and other receivables on every financial position date in order to assess whether impairment in value should be recorded in the profit and loss account. The professional judgement of the management is required to estimate the value and 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.

Deferred tax assets are recognized 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 recognized based on the probability of 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 Company 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 Company 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 1 January 2019 and presented in section 2.

Fair value

IFRS 13 - Fair Value Measurement establishes a fair value hierarchy that categorizes on three levels of input data for the evaluation techniques used to assess fair value:

- Level 1 inputs - are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date, This data provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available.
- Level 2 inputs - are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly for the assets and liabilities (for example the quoted prices for identical assets or liabilities on markets that are not active.
- Level 3 inputs - inputs are unobservable inputs for the asset or liability, The Company develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Initial measurement

The Company chose to measure these assets at acquisition cost or production cost (self-created) according to IAS 38 - Intangible Assets.

Measurement subsequent to initial recognition

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

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

The Company applies IAS 36 to determine whether an intangible asset measured at cost is impaired. At the end of each reporting period, the Company 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 recognized immediately in the profit or loss.

For their presentation in the profit and loss account, the gains or losses 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 unamortized 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 acquisition cost or 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 own assets includes salaries, materials, production overheads and other costs directly attributable to bringing the assets to its current location and condition.

The company established a value threshold for the recognition of a tangible asset item.

Measurement subsequent to initial recognition

The Company 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 revalued amount, which is 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 buildings is generally market-based, through a valuation made by professional and qualified valuers.

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

The frequency of revaluations 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 accumulated depreciation at the date of the revaluation is removed from the gross carrying amount of the asset and the net amount is restated at the revalued amount of the asset.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Therefore, the 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 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 revaluations may be required if there are material and volatile changes in the values.

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

The residual value of the asset and its useful life should be revised 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 an asset ends at the earliest of 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 derecognized. 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.

Land 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.

For all assets acquired starting January 1, 2015 the Company uses the straight-line method as the depreciation method which results in systematic allocation of the depreciable amount of the assets over their useful life.

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

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

Property, plant and equipment	<u>Durata (ani)</u>
Buildings	20 - 100
Technological equipment	5 - 12
Measurement, control and adjustment devices	3 - 8
Motor vehicles	4 - 8
Furniture, office equipment, equipment for the protection of human and material values	8 - 15

Impairment policy applied by the company

The revaluation surplus of a tangible asset accumulated in equity should be directly transferred each month to retained earnings as it is depreciated, if the asset is used, and upon derecognition, when the asset is disposed of or scrapped.

If an asset is revalued, an impairment loss is recognized directly by reducing the revaluation surplus, but the loss should not exceed it.

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 derecognized on disposal or when no future benefits are expected from its use or disposal.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

Maintenance and capital repairs

Capitalized costs for capital repairs are separate components of the corresponding assets or groups of assets. Capitalized costs for capital repairs are amortized using the amortization method used for the underlying asset until the next repair. The expenditure for capital repair works includes the cost of replacing the assets or parts thereof, the costs of inspection and the costs of capital repairs. The expenditure is capitalized if an asset or a part of an asset which was amortized 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 removed. All the other costs incurred for day to day repairs and ordinary maintenance are directly recognized as expenses.

Leasing contracts

The Company 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 Company chose to apply the proposed standard exception for the leasing contracts for assets with a small value (below 5000 USD).

The Company 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 Company 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

Investment property is initially recognized at cost according to IAS 40 - Investment property. 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.).

Measurement after recognition

The Company selected the fair value model for the presentation of investment property in its financial statements. Investments properties are not depreciated, gains and losses arising from changes in fair value of investment properties are included in profit or loss in the period in which they arise.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Electromagnetica SA 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.

Clasificarea activelor financiare

Conform IFRS 9 Instrumente financiare, activele financiare sunt calificate in:

Classification of financial assets

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

1. Financial asset measure *data amortized cost if the two requirements below are met:*
 - the financial assets 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. *a 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 IFRS15, 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

The financial assets include the shares held in subsidiaries, associated entities and jointly controlled entities, the loans granted to those entities, other investments held as non-corporal 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.

Investments in related parties

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

An investor controls an investee if and only if the investor holds 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 capitalized until the asset is prepared for its predetermined use or sale. All the other costs related to loans are recognized as expenses in the profit and loss account for the period of their occurrence.

Interest expenses are recorded using the effective interest rate method. In the years ended December 31, 2019 and December 31, 2018 the Company did not capitalize interest expenses in the assets' value.

Government grants

According to IAS 20, government grants are recognized 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 other liabilities and recognized systematically in the profit and loss account for the useful life of the assets they relate to.

This category also includes the equivalent value of the green certificates received as electricity producer, from the electricity transmission and distribution operator, in accordance with applicable legislation. These are initially measured at the trading price on the date of their receipt, as published by the operator of the electricity market. At the end of the financial period, the remaining green certificates are measured at the trading value published by the electricity market operator for the last transaction and the differences are reflected in the profit or loss for the period

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 realizable value. The net realizable 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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

When a receivable is expected not to be fully collected, adjustments 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 of cash flows, 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 initial 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 incomes considered to be non-current liabilities are 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (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 Group 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 analyzing 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 recognized 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 fulfills 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 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of goods (continued)

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 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 revenues from distinct performance obligations

According to some delivery terms, the 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.

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.

Service provision

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.

Performance obligations fulfilled in time

SC Electromagnetica SA transfers the control of a good or a service in time and therefore fulfills 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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of goods (continued)

Performance obligations fulfilled at a specific time

If SC Electromagnetica SA fulfills 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 SC Electromagnetica fulfills a performance obligation, the stipulations regarding the transfer of control will be analyzed 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/startup 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 SC Electromagnetica SA 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 fulfillment of the performance obligation by the supplier).

Reasonable progress assessments

Or 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, SC Electromagnetica SA 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.

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 is recognized 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 recognized 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 recognized as a current expense in the period in which the allocation was approved.

The revenue arising from interest is recognized 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement.

Provisions are recognized 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 recognized for:

- a) lawsuits;
- b) guarantees to customers;
- c) dismantling of tangible assets and other similar actions related there to;
- 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 recognized at the reliably estimated amount.

Provisions for guarantees to customers are recognized 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.

Restructuring provisions

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 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 or other long-term employee benefits (if provided for in the labor contract). Upon their recognition as due to employees, the amount of provisions will be carried in the corresponding revenue accounts.

Other provisions

If liabilities of uncertain timing or amount that meet the conditions of 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 outflow of resources embodying economic benefits to settle the obligation is no longer probable, the provision must be cancelled.

The Company does not recognize 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

The obligations representing short-term employee benefits are not discounted and are recognized in profit or loss as the related service is rendered.

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

The 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 recognized in the profit and loss account for the period in which they are paid. The Company does not have other additional obligations.

The 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 of the year

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

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 period following the period for which the annual accounts are prepared, in retained earnings, and is distributed to the other destinations decided by the general meeting of shareholders, in compliance with applicable legislation. 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 the entities which present both the consolidated financial statements and the separate financial statements are required to present the earnings per share only on the basis of 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The weighted average of ordinary shares outstanding during the period is the number of shares outstanding at the beginning of the 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 as it applies 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);
- 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;

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4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Advances for tagible assets	Total
As at December 31, 2019	151,433,699	111,277,181	32,518,443	3,799,120	1,185,609	-	300,214,052
Inflows	3,612,897	3,461,849	3,077,823	445,372	8,339,614	301,602	19,239,157
Transfers	-	3,461,849	3,077,823	445,372	(6,985,044)	-	-
Outflows	-	(5,558,594)	(274,099)	(22,002)	(6,985,044)	-	(12,869,740)
As at December 31, 2020	155,046,596	109,150,436	35,322,167	4,222,490	2,540,179	301,602	306,583,437
Accumulated depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Advances for tagible assets	Total
As at December 31, 2019	328,881	4,060,867	16,498,199	1,780,952	-	-	22,668,899
Depreciation for the year	-	3,760,038	3,443,419	500,921	-	-	7,704,378
Accumulated depreciation for outflows	-	(302,518)	(187,398)	(18,653)	-	-	(508,569)
As at December 31, 2020	328,881	7,518,387	19,754,220	2,263,220	-	-	29,864,708

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment allowances	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Advances for tagible assets	Total
As at December 31, 2019	-	-	-	-	-	-	-
Allowances for impairment recognized in profit or loss	-	893,116	121,788	-	-	-	1,014,904
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	-	-	-
As at December 31, 2020	-	893,116	121,788	-	-	-	1,014,904
Net book value							
As at December 31, 2019	151,104,818	107,216,314	16,020,244	2,018,168	1,185,609	-	277,545,153
As at December 31, 2020	154,717,715	100,738,933	15,446,159	1,959,270	2,540,179	301,602	275,703,825

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2018	151,433,699	111,213,804	32,407,616	3,248,607	1,088,185	299,391,911
Inflows	-	63,377	841,190	745,195	1,641,697	3,291,459
Transfer	-	63,377	841,190	639,706	(1,544,273)	-
Outflows	-	-	(730,363)	(194,682)	(1,544,273)	(2,469,318)
As at December 31, 2019	151,433,699	111,277,181	32,518,443	3,799,120	1,185,609	300,214,052
	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
Accumulated depreciation						
As at December 31, 2018	328,881	-	13,005,545	1,388,229	-	14,722,655
Depreciation for the year	-	4,060,867	3,914,809	426,286	-	8,401,962
Accumulated depreciation for outflows	-	-	(422,155)	(33,563)	-	(455,718)
As at December 31, 2019	328,881	4,060,867	16,498,199	1,780,952	-	22,668,899

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5. PROPERTY, PLANT AND EQUIPMENT

Impairment allowances	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
As at December 31, 2018	-	-	-	-	-	-
Allowances for impairment recognized in profit or loss	-	-	-	-	-	-
Reversal of allowances for impairment recognized in profit or loss	-	-	-	-	-	-
As at December 31, 2019	-	-	-	-	-	-
Net book value						
As at December 31, 2018	151,104,818	111,213,804	19,402,071	1,860,378	1,088,185	284,669,256
As at December 31, 2019	151,104,818	107,216,314	16,020,244	2,018,168	1,185,609	277,545,153

As at December 31, 2020 corporal assets decreased by 0.8% as of December 31, 2019 mainly due to depreciation.

Tangible assets are represented by upgrades of the headquarters of the company, the acquisition of technological equipment, as well as taking over assets by liquidating Electromagnetica Goldstar (building and land).

Outflows of assets represent write-downs due to sale and disposal. The transfer movements are due to the transfer of the building taken over from Electromagnetica Goldstar in real estate investments.

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6. 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 favor of the said banks, as follows:

Name of asset	Net book value as at December 31, 2020	Net book value as at December 31, 2019
- Real estate (cadastral parcels no,13,15)		
- Calea Rahovei 266-268 Sector 5 Bucharest	25,971,259	26,354,492
- Real estate (cadastral parcels no. 16)		
- Calea Rahovei 266-268 Sector 5 Bucharest	33,496,145	33,496,145
- Land Calea Rahovei, 242 = 2.157 m2	5,160,797	5,160,797
- Small hydropower plants (land+industrial and urban buildings)	47,265,912	48,706,930

The tangible assets also include assets acquired through Government grant and used in licensed activity in one of the small hydropower plants located in Brodina, Suceava County. The net carrying amount of the investment at December 31, 2020 is RON 10,523,945, out of which RON 4,410,306 represents grant. The net carrying amount of the investment at December 31, 2019 was RON 10,831,211 out of which RON 4,573,525 represented grant.

Fair value of tangible assets

The tangible assets of the Company other than tangible assets in progress are presented in the financial statements at revalued amount, representing the fair value at the date of valuation, less accumulated depreciation and impairment.

This method is recommended for properties, when there is sufficient and reliable data on transactions or selling offers for similar properties in the area, Analysis of prices at which transactions were made on requested or offered prices for comparable properties is followed by the performance of price corrections, in order to quantify the prices paid, required or provided, due to differences between the specific characteristics of each property in some called elements for comparison

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

The cost method requires that the maximum value of an asset for an informed buyer is the amount that is needed to buy or build a new asset with equivalent utility. When the asset is not new, the current cost of crude has low all forms of impairment that may be assigned to him, until the valuation date.

The income method provides an indication of value by converting future income flows in asset value (market value or investment value).

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

	Level 1	Level 2	Level 3	Fair value at December 31, 2020
Lands and land improvements	-	-	154,717,715	154,717,715
Constructions	-	-	100,738,933	100,738,933
	Level 1	Level 2	Level 3	Fair value at December 31, 2019
Lands and land improvements	-	-	151,104,818	151,104,818
Constructions	-	-	107,216,314	107,216,314

During 2020 and 2019, there were no transfers between levels related to fair value.

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5. INVESTMENT PROPERTY

The Company owns property that is fully used for rental, All the rental agreements have an initial duration of minimum one year. Further extensions are negotiated with the tenants. The obligations of the parties with regard to repairs, maintenance and improvements are set forth in the contracts.

According to IAS 40, this category of property is recognized as investment property. The Company selected the fair value model for the presentation of investment property in its financial statements. The fair value revaluation as at December 31, 2020 was performed by an ANEVAR authorized company who used the income approach (discounted cash flow method).

As at December 31, 2020 the investment property is structured as follows:

	<u>2020</u>	<u>2019</u>
Opening balance	5,182,279	4,709,859
Inflows, of which:		
fair value valuation	6,247,121	509,356
transfer	893,244	509,356
Outflows, of which:		
fair value valuation	-	-
transfer	(314,746)	(36,936)
	(314,746)	(36,936)
	-	-
Closing balance	11,114,654	5,182,279

The revenues arising from the investment property in 2020 amounts to RON 2,120,134 and covers the expenses incurred by the owner (2019: 1,569,326 lei).

The entries are represented by the building returned to the sole shareholder from the liquidation of the affiliated company Electromagnetica Goldstar and from investments in a building with a kindergarten destination.

The Company holds other rented spaces within buildings used in conjunction with other activities. These are not classified as investment property because the share in total revenues is insignificant. Also in most cases these spaces cannot be managed separately.

There are no restrictions on the level of realization of investment property or the transfer of revenue and proceeds from disposal.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value at December 31, 2020</u>
Investment property	-	-	11,114,654	11,114,654
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value at December 31, 2019</u>
Investment property	-	-	5,182,279	5,182,279

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6. INTANGIBLE ASSETS

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

In the statement of financial position, they are presented at historical cost, less amortization and impairment. The decrease of intangible assets is mainly due to amortization of some licenses. The useful life was estimated at 3 years for most of the intangible assets.

Intangible assets as at December 31, 2020 are as follows:

Cost	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
As at December 31, 2019	1,118,331	2,611,616	65,538	3,795,485
Inflows	57,553	-	49,218	106,771
Outflows	-	-	(57,553)	(57,553)
Transfers	57,553	-	(57,553)	-
As at December 31, 2020	1,175,884	2,611,616	57,203	3,844,703
Accumulated amortization				
As at December 31, 2019	778,290	2,550,708	-	3,328,998
Amortization for the year	163,277	60,907	-	224,184
Accumulated amortization for outflows	-	-	-	-
As at December 31, 2020	941,567	2,611,615	-	3,553,182
Net book value				
As at December 31, 2019	340,041	60,908	65,538	466,487
As at December 31, 2020	234,318	-	57,203	291,521

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6. INTANGIBLE ASSETS (continued)

Intangible assets as at December 31, 2019 are as follows:

Cost	<u>Concessions patents licenses</u>	<u>Other intangible assets</u>	<u>Intangible assets in progress</u>	<u>Total</u>
As at December 31, 2018	854,637	2,616,091	78,312	3,549,040
Inflows	266,523	-	246,896	508,944
Outflows	(2,829)	(4,475)	(259,670)	(262,499)
Transfers	-	-	-	-
As at December 31, 2019	1,118,331	2,611,616	65,538	3,795,485
Amortizare cumulată				
As at December 31, 2018	617,524	2,229,491	-	2,847,015
Amortization for the year	160,846	321,217	-	560,363
Accumulated amortization for outflows	(80)	-	-	-
As at December 31, 2019	778,290	2,550,708	-	2,847,015
Net book value				
As at December 31, 2018	237,113	386,600	78,312	702,025
As at December 31, 2019	340,041	60,908	65,538	466,487

7. ASSETS RELATING TO THE RIGHTS OF USE

As of December 31, 2020, the Company recognizes assets related to usage rights amounting to RON 2,749,317 and leasing debts amounting to RON 2,117,451 related to previous operational leasing contracts, of which short-term debts amounting to RON 804,669 and long-term debts amounting to RON 1,312,782.

	<u>The balance at January 1,2020</u>	<u>Inflows</u>	<u>Outflows</u>	<u>The balance at December 31,2020</u>
Right of use	2,148,907	762,189	161,779	2,749,317
of witch:				
Right of use of buildings	1,866,937	631,109	161,779	2,336,267
Right of use of vehicles	281,970	131,080	-	413,050
Debt from Leasing	1,430,769	1,861,988	1,175,306	2,117,451
Recognized depreciation	668,829	167,214	171,839	664,203
Interest expense	-	84,095	-	-

Net asset value at December 31, 2020: RON 2,085,114 (at December 31, 2019, the net asset value was in amount of 1,480,078).

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7. ASSETS RELATING TO THE RIGHTS OF USE (continued)

Of which:

Net value of the right to use the assets: RON 1,788,133.

Net value of the right to use vehicles: RON 296,981.

The remaining amount of the debts as of December 31, 2020: RON 2,117,451.

8. INVESTMENTS IN RELATED ENTITIES

As at December 31, 2020, the Company classified its investments in related entities amounting to RON 841,408 are stated at cost.

None of the companies in which these investments are owned is quoted on a stock exchange. The investments are measured at cost and assessed for impairment annually. To determine impairment, the management uses a series of judgements and considers, among other factors, the duration and the extent to which the investment amount at the reporting date is inferior to its cost; the financial health and the short-term prospects of the related company, the technological changes and operational and financing cash flows.

The details of the Company's investments in subsidiaries as at December 31, 2020 are:

Name of subsidiary	No. of securities	Ownership and voting right percentage (%)	Value
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			841,804

The affiliated company Electromagnetica Goldstar was liquidated at the end of 2020, the sole shareholder, Electromagnetica S.A. taking over all its assets and liabilities presented in the financial statements at the date of liquidation.

The details of the Company's investments in subsidiaries as at December 31, 2019 are:

Name of subsidiary	No. of securities	Ownership and voting right percentage (%)	Value
Electromagnetica Goldstar SRL	2,650	100%	3,126,198
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

These companies will be included in the consolidated financial statements.

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9. OTHER NON-CURRENT ASSETS

This category mainly includes the performance guarantees granted to customers, which were classified as non-current according to the respective contracts.

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

	December 31, 2020	December 31, 2019
Performance guarantees granted to customers	1,668,567	1,612,182
Trade receivables scheduled on the long-term	19,789,266	24,901,807
Adjustment trade receivables at present value	(2,097,083)	(1,830,235)
Other	443,260	18,522
Total	19,804,010	24,702,276

Trade receivables scheduled on the long-term in net value of RON 17,692,183 as at December 31, 2020 have been discounted at present value, and the effect of the discount amounted to RON 2,097,083. The short-term portion is recognized in trade receivables (Note 11).

10. INVENTORIES

	December 31, 2020	December 31, 2019
Raw materials	6,889,170	7,040,842
Consumables	1,915,843	1,768,142
Finished goods	3,621,418	3,241,583
Work in progress	1,699,973	3,170,253
Other inventories	1,094,643	1,897,656
Allowances for impairment of inventories	(1,818,372)	(1,707,149)
Total	13,402,675	15,411,327

Other inventories include items of inventory, finished goods or materials in custody at third parties and advances paid to suppliers of goods.

The changes in inventory impairments is as follows:

	2020	2019
Balance at the beginning of period	1,707,149	1,648,538
Increase depreciation adjustments	1,045,050	1,253,817
Decrease depreciation adjustment	(933,827)	(1,195,206)
Balance at the end of period	1,818,372	1,707,149

Allowances recorded in the reporting period are for obsolete or slow moving raw materials and consumables.

The Company did not pledge inventories to secure its liabilities.

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11. TRADE RECEIVABLES

Receivables are recorded at nominal value and are accounted for in the cost accounting for each natural or legal person. The receivables 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.

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Internal trade receivables*	55,114,647	54,678,262
External trade receivables	8,031,013	5,384,968
Estimated trade receivables	1,165,173	605,325
Adjustment of internal trade receivables at present value	(790,431)	(614,177)
Impairment of trade receivables	<u>(4,909,054)</u>	<u>(4,940,221)</u>
Net trade receivables	<u>58,611,348</u>	<u>55,114,158</u>

Domestic trade receivables include performance guarantees granted to customers with maturity under one year. As at December 31, 2020 they amounted to RON 676,756 (December 31, 2019: RON 256,546).

The sale contracts or services provision contracts concluded with customers under credit facilities have been discounted at present value. The total effect of the discount was RON 2,887,514, of which RON 790,431 due in one year and RON 2,097,083, due in more than one year (details in Note 9).

The balance of trade receivables from customers as at December 31, 2020 is RON 49,831 (December 31, 2019: RON 484,456) and represents promissory notes issued by customers in favor of the company under the contracts concluded.

The changes of impairment allowances of trade receivables are as follows:

	<u>2020</u>	<u>2019</u>
Balance at the beginning of period	<u>4,940,221</u>	<u>4,306,212</u>
Increases of impairment allowances	759,364	1,100,670
Decreases of impairment allowances	<u>(790,531)</u>	<u>(466,661)</u>
Balance at the end of period	<u>4,909,054</u>	<u>4,940,221</u>

Doubtful accounts or litigating customers are in amount of RON 4,909,054 as at December 31, 2020 RON (December 31, 2019: RON 4,940,221).

The impairment recorded refers to amounts not collected from doubtful accounts or litigating customers and for which a risk of default was estimated according to the policy adopted by the Company.

The accounts receivable collection period has decreased in 2020 to 98 days compared to 111 days in 2019.

The maturity of receivables as at the preparation date of the statement of financial position is:

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11. TRADE RECEIVABLES (continued)

	Gross value as at December 31, 2020	Provision as at December 31, 2020	Gross value as at December 31, 2019	Provision as at December 31, 2019
Outstanding	41,690,599	-	44,397,268	-
Overdue between 1 – 30 days	9,058,359	-	5,885,271	-
Overdue between 31 – 90 days	2,469,064	-	791,361	-
Overdue between 90 – 180 days	995,204	-	1,449,893	-
Overdue between 180 – 365 days	1,339,762	-	1,798,922	-
More than 1 year	7,967,414	(4,909,054)	5,731,663	(4,940,221)
TOTAL	63,520,402	(4,940,221)	60,054,378	(4,940,221)

12. OTHER CURRENT ASSETS

	December 31, 2020	December 31, 2019
Debtors	31,926	366,062
Prepaid expenses	902,401	899,734
Debtor suppliers	138,192	194,295
Other assets	809,831	479,694
Total	1,882,350	1,939,785

The accrued expenses of RON 902,401 mainly consist of rent paid in advance, insurance premiums for the civil liability of directors and various subscriptions.

Other assets also include the value of the VAT non-chargeable in amount of RON 219,965, amounts recoverable from social health insurance amounting to RON 578,915.

13. CASH AND CASH EQUIVALENTS

	December 31, 2020	December 31, 2019
Petty cash	6,456	18,851
Current accounts with banks	20,101,494	21,691,334
Cash equivalents	510	11,081
Total	20,108,460	21,711,183

	December 31, 2020	December 31, 2019
Restricted cash	81,748	80,302
Total	81,748	80,302

Restricted cash is used to guarantee collateral.

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14. SHARE CAPITAL

The share capital subscribed and paid up is RON 67,603,870, divided into 676,038,704 shares at nominal value 0,10 RON/share, fully paid.

The structure of the shareholders that own over 10% of the share capital as at December 31, 2019 is the following, according to the Central Depository Register:

SHAREHOLDER	December 31, 2020		December 31, 2019	
	No, of shares	%	No, of shares	%
Asociația PAS	171,084,540	25.3069	171,084,540	25.3069
SIF Oltenia SA	176,717,594	26.1402	176,717,594	26.1402
Natural persons	255,182,254	37.7467	249,631,166	36.9256
Legal persons	73,054,316	10.8062	78,605,404	11.6274
Total	676,038,704	100	676,038,704	100

None of the shareholders has control over the Company.

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

15. RESERVES

Legal reserve

	2020	2019
Balance as the beginning of the period	19,680,554	19,431,494
Increases of legal reserves	109,300	249,060
Decreases of legal reserves	-	-
Balance as the end of the period*	19,789,854	19,680,554

According to Romanian legislation, the entities must allocate an amount at least equal to 5% of the profit before tax to the legal reserves, until the reserves reach 20% of the share capital. When this level is reached, the entity can make additional allocations exclusively from its net profit. The legal reserve is deductible within the limit of 5% of the accounting profit, before the determination of the income tax.

During the reporting period, the legal reserve related to the obtained profit was constituted (5% of the accounting profit established according to the law).

* The allowance for inflation following the application of IAS 29 to this reserves amounts to RON 8,649,877 at December 31, 2020 (December 31, 2019: 8,49,877 lei).

Revaluation reserves amount to RON 110,800,131 as at December 31, 2020. Reported at the beginning of the period, they decreased due to the transfer of the revaluation reserve to retained earnings as a result of amortization.

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15. RESERVES (continued)

	<u>2020</u>	<u>2019</u>
Balance as the beginning of the period	113,135,988	115,838,396
Increases	-	-
Reductions	(2.335.855)	(2,702,408)
Balance as the end of the period	110.800.133	113,135,988

At December 31, 2020 the Company has **other reserves and equity items** amounting to RON 64,516,529 of which reserves for own sources of founding represent 98%.

	<u>2020</u>	<u>2019</u>
Balance as the beginning of the period	62,841,298	60,971,315
Increases	1.675.231	1,869,983
Reductions	-	-
Balance as the end of the period	64.516.529	62,841,298

Within the AGOA Electromagnetica from April 28, 2020, it was approved the allocation of 1,717,868 lei for reserves as own sources of financing.

16. RETAINED EARNINGS

As at December 31, 2020, the retained earnings arising from the transfer of reserves from revaluation related to depreciated or decommissioned assets was in amount of RON 2,335,855.

Within the OMS Electromagnetica from April 28, 2020, it was approved the allocation of RON 2,704,155 for the payment of dividends for the year 2019 (respectively 0.004 lei / share).

17. INVESTMENT SUBSIDIES

	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Investment subsidies as at December 31, 2020	4.410.306	163.219	4.247.087
	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Investment subsidies as at December 31, 2019	4,573,525	163,219	4,410,306

In 2012, the Company benefited from an investment subsidy of 5,997,788 RON granted for the modernization of the micro-hydro power plant in Brodina (Suceava), which will be transferred to revenue concomitantly with the registration of the amortization of the non-current assets purchased under this project. The net book value of the fixed assets purchased from such grant are presented in Note 4.

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18. PROVISIONS

Description	Balance January 01,2020	Inflows (set-up)	Outflows (reversals)	Balance December 31,2020
Provisions for performance guarantees to customers	1,148,682	-	(28,682)	1,120,000
Provisions for risks and charges	31,440	-	-	31,440
Provision for employees' benefits	626,020	1,872,458	(1,493,027)	1,005,451
TOTAL	1,806,142	1,872,458	(1,521,709)	2,156,891

The Company has concluded contracts for the supply of lighting units with warranty, for long periods, i.e, 2-4 years. The contracts do not provide for a percentage or amount of the performance guarantee, therefore the related provision is calculated based on the analysis of the history of costs incurred with goods under warranty.

The provision for employee benefits relates to the value of the rest leaves not taken in the previous year.

19. TRADE AND OTHER PAYABLES

	December 31, 2020	December 31, 2019
Trade payables		
Internal trade payables	7,041,778	8,900,394
External trade payables	3,448,163	2,797,053
Estimated trade payables	15,437,277	15,388,430
Other current payables		
Advances received from customers	789,218	939,456
Salaries and social security contributions	2,864,042	3,365,077
Income in advance	-	1,836,764
Other payables	13,402,097	13,041,066
Total trade and other payables	42,982,576	46,268,240

Liabilities are recorded at nominal value and are accounted for in the analytical records 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 liability settlement period has decreased to 71 days in 2020 compared to 90 days in 2019.

The Company does not have significant outstanding trade payables.

The Company does not have overdue liabilities to employees and the state budget. The amounts presented represent liabilities for December 2020, were paid on the due date, in January 2021.

The Company did not have long-term loans at December 31, 2020.

The Company has several loan agreements as at December 31, 2020. Their status is presented in Note 28 to these financial statements. There were no outstanding liabilities related to loans as at December 31, 2020 and as at December 31, 2019.

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19. TRADE AND OTHER PAYABLES (continued)

Other payables include guarantees received from tenants, VAT to be paid, other taxes and the fine in amount of RON 9,021,308. For this amount the Company requested ANAF the suspension according to Art. 235 of the Fiscal Procedure Code.

The guarantees received as at December 31, 2020 amount to RON 2,977,658 and will be settled according to the contractual terms.

	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Guarantees received 2020	2.977.658	1.808.887	1.168.772
	<u>Total</u>	<u>Within one year</u>	<u>In more than one year</u>
Guarantees received 2019	2,680,667	1,415,664	1,265,003

Leasing debts are presented under current and long-term liabilities. Their total value is RON 2,117,451. (Note 7).

20. INCOME

	<u>2020</u>	<u>2019</u>
Income	283,151,730	256,169,132
- Income from sold production	75,957,981	78,941,288
- Rental income	17,623,999	16,159,606
- Income from sale of goods	189,569,750	161,068,238
Investment income	932,082	1,018,418
- Interest income	294,837	359,931
- Income from dividends	637,245	658,487
Variation in inventories of finished goods and work in progress	7,934,317	13,389,266
Own work capitalized	1,481,686	772,403
Other income / expenses	10,794,514	6,802,816
- Income from subsidies	3,491,118	4,535,967
- Net provisions	(350,749)	1,414,906
- Net foreign exchange difference	(9,528)	329,428
- Other income	7,663,673	522,515
Net income	304,294,329	278,152,035

Rental income for the year ended December 31, 2020 includes RON 2,120,134 representing rents related to real estate investments (2019: RON 1,569,326).

Net provisions are income from adjustments for impairment of inventories and receivables as well as income /expense with provisions for good execution guarantees granted to clients.

Net income from valuation at fair value of investment property were in the amount of RON 578,498 and can be found in Other income.

Other net income contains the total value of assets taken over by the liquidation of Electromagnetica Goldstar.

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21. EXPENSES

	2020	2019
Expenses related to materials	219,528,624	188,946,222
- Raw materials and consumables	43,352,953	48,417,927
- Goods purchased for resale	173,726,263	138,363,723
- Electricity, heating and water	2,449,408	2,164,572
Employee-related expenses	30,490,094	36,494,887
- Salaries	18,184,409	19,866,875
- Other employee-related expenses	12,305,685	16,628,012
Other expenses	37,943,201	36,706,154
Post	245,145	207,116
Maintenance expenses	419,828	376,693
Rentals	604,952	327,825
Advertisement and entertainment	141,875	196,364
Insurance	502,505	493,050
Transport and travel	1,024,536	1,199,260
Subcontracted work	7,840,473	7,857,655
Other taxes	1,798,066	1,534,731
Consultants and collaborators	440,691	827,861
Costs of green certificates	8,859,234	11,686,188
Other operating expenses	16,065,896	11,999,411
Expenses related to depreciation and impairment	10,199,234	10,183,159
- Depreciation	9,184,330	10,183,159
- Net impairment	1,014,904	-
Total expenses	298,161,153	272,330,422

Expenditure on raw materials, materials and commodities decreased as sales decreased with the decreased of sales both on licensed activities and on non-licensed activities.

The "Other operating expenses" line shows the services rendered by third parties, banking and similar services, fees and commissions etc.

22. FINANCIAL EXPENSES

	2020	2019
Interest expenses	25,227	13,138
Bank charges	711,647	740,942
Expenses for shares of EM. Gldstare	3,126,197	-
Lease interest expenses	84,095	86,330
Total financial expenses	3,947,166	840,410

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23. INCOME TAX

Income tax recognized through profit or loss:

	December 31, 2020	December 31, 2019
Current income tax		
Current income tax expenses	459,212	1,367,036
Deferred income tax		
Deferred income tax income	(597,504)	(874,520)
	(138,292)	492,516

Settlement of profit before tax and income tax expenses in the profit and loss account:

Caption	Year ended December 31, 2020	Year ended December 31, 2019
Net accounting (loss)/profit	2,324,301	4.488.687
Deductions	(5,212,568)	(5,728,809)
Non-taxable income	(12,789,215)	(7,407,647)
Non-deductible expenses	18,572,019	17,254,242
Taxable (loss)/profit	2,894,537	8,606,473
Tax loss from previous years	-	-
Current income tax	463,126	1,377,036
Income tax reduction	(3,914)	(10,000)
Income tax due at end of period	459,212	1,367,036

The tax rate used for the reconciliations above is 16%.

As at December 31, 2020, the current income tax due is RON 949,937 (as at December 31, 2019: RON 760,012).

The analysis of deferred tax for the reporting period is shown below:

	Opening balance	Through profit or loss	Through other comprehensive income	Closing balance
Property, plant and equipment	18,888,035	(453,243)	(338)	18,434,454
Receivables	(391,106)	(70,896)	-	(462,002)
Impairment of receivables	(790,435)	5,142	-	(785,293)
Impairment of inventories	(273,144)	(17,796)	-	(290,940)
Employee-related benefits	(100,163)	(60,710)	-	(160,873)
TOTAL	17,333,187	(597,504)	(338)	16,735,345

The deferred income tax resulted from different accounting and tax depreciation methods, and the one from revaluation reserves resulted from the revaluation of tangible assets registered after January 1, 2004, which are taxed concomitantly with the deduction of the tax depreciation.

At the date of preparation of this report, the fiscal control started at the end of last year regarding the analyses of the profit tax and the analyses of the VAT transactions is not finalized yet and there are no preliminary amounts to affect the results presented so far.

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24. AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Management	41	43
Administrative	154	157
Production	192	254
Total	387	454

The high qualification level of employees enabled the company to carry out sustained research and development activities. The evolution of the employee structure by the level of qualification:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Higher education	30%	38%
Secondary education	35%	35%
Technical education	5%	5%
Vocational and qualification training	30%	22%
Average number of employees	387	454

The expenses for salaries and related taxed in the years of 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Expenses related to salaries	18,184,409	19,866,875
Others	12,305,685	16,628,012
Total	30,490,094	36,494,887

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

25. RELATED PARTY TRANSACTIONS

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Sales of goods and services to subsidiaries		
Electromagnetica Goldstar	111,762	72,426
Electromagnetica Fire	27,336	21,906
Electromagnetica Prestserv	20,828	19,817
Procetel	351,250	33,385
Total	511,176	147,534

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Purchases of goods and services from subsidiaries		
Electromagnetica Goldstar	261,255	257,270
Electromagnetica Fire	1,398,321	1,275,562
Electromagnetica Prestserv	1,063,462	1,062,199
Procetel	1,357,810	1,183,845
Total	4,080,848	3,778,876

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25. RELATED PARTY TRANSACTIONS (continued)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Trade and other payables to subsidiaries		
Electromagnetica Goldstar	-	-
Electromagnetica Fire	148,186	175,286
Electromagnetica Prestserv	107,281	108,909
Procetel	7,373	4,744
Total	262,840	288,939

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Receivable from subsidiaries		
Electromagnetica Goldstar	-	-
Electromagnetica Fire	-	-
Electromagnetica Prestserv	-	-
Procetel	304,516	-
Total	304,516	-

The remuneration of the members of the Board of Directors in 2020 was RON 291,564 (December 31, 2019: RON 437,582).

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

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

The sales to the related companies (subsidiaries) comprise: deliveries of various materials, rents, utilities.

The purchases from the related companies (subsidiaries) comprise: rental, utilities, cleaning and transportation services, fire prevention and extinction services.

Procetel SA is a joint-stock company with its registered office in Calea Rahovei 266-268, Bucharest, sector 5, registered with the Trade Registry under no. J40/10437/1991, Tax ID 406212, tel.: 031.700.2614, fax: 031.700.2616. Its main object of activity is Other research and experimental development on natural sciences and engineering (NACE code 7219). In relation to Electromagnetica it carries out renting activities.

Electromagnetica Goldstar SRL is a limited liability company based in Bucharest, Calea Rahovei no. 266-268, sector 5, registration number at the Trade Register attached to the Bucharest Tribunal with no. J40 / 12829/1991, CUI 400570, having as object of main activity manufacture of communication equipment (CAEN code 2630). In relation to Electromagnetica, it carries out space rental activities. This company was liquidated in December 2020.

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

Electromagnetica Fire SRL is a limited liability company with its 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 Registry Office attached to Bucharest Tribunal under no, J40/15634/2006, Tax ID 19070708, In relation to Electromagnetica it carries out activities pertaining to fire protection, technical assistance for fire prevention and extinction and private emergency services for civil protection, interior works, electrical works and cleaning service.

Electromagnetica provides renting services to related parties Procetel, Electromagnetica Prestserv and Electromagnetica Fire.

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26. EARNINGS PER SHARE

Basic earnings per share

During the reporting period, there were no changes in the share capital structure. The basic earnings per share are presented in the profit and loss account and other comprehensive income. It was calculated as the ratio of the net profit related to ordinary shares and the weighted average of outstanding ordinary shares.

	<u>2020</u>	<u>2019</u>
Net profit attributable to the shareholders	2,324,301	4,488,687
Average weighted number of ordinary shares	676,038,704	676,038,704
Earnings per share	0.0034	0.0066

Diluted earnings per share

To calculate the diluted earnings per share, the company adjusts the profit attributable to the ordinary shareholders of the mother-company and the weighted average of outstanding shares by the effects of all the potentially diluting ordinary shares. For 2020 and 2019, the Company registers the basic earnings per share as equal to the diluted earnings per share as there are no certain securities that could be converted into ordinary shares in the future.

27. INFORMATION ON SEGMENTS OF ACTIVITY

The Company used as the aggregation criteria, for reporting according to the 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 criteria relies on the license needed to run business and the conditions required by the license, such as presentation of separate financial statements. The electricity production and supply were aggregated as they constitute an integrated process for such operations.

Segment information 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.

2020	<u>Unlicensed activity</u>	<u>% Total Company</u>	<u>Licensed activity</u>	<u>% Total Company</u>	<u>Total Company</u>
Net profit	1,372,990	59.07	951,311	40.93	2,324,301
Total assets	300,770,286	74.21	104,505,301	25.79	405,275,587
Total liabilities	38,774,176	55.35	31,277,452	44.65	70,051,628
Customer revenue	90,662,869	32.02	192,488,861	67.98	283,151,730
Interest income	297,462	100.0	-	-	297,462
Impairment and depreciation	7,220,960	70.80	2,978,274	29.20	10,199,234
2019	<u>Unlicensed activity</u>	<u>% Total Company</u>	<u>Licensed activity</u>	<u>% Total Company</u>	<u>Total Company</u>
Net profit	(2,801,961)	n/a	7,290,648	n/a	4,488,687
Total assets	315,833,553	77.36	92,446,789	22.64	408,280,342
Total liabilities	37,914,386	52.17	34,762,480	47.83	72,676,866
Customer revenue	91,905,523	35.88	164,263,609	64.12	256,169,132
Interest income	362,447	100.0	-	-	362,447
Impairment and depreciation	8,253,708	81.06	1,929,451	-	10,183,159

This is a free translation from the original Romanian version.

ELECTROMAGNETICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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27. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Main products and production structure

The Company benefits from a wide range of technologies and equipment that enables it to obtain a rich diversity of products. The share of the main groups of products in the production-related turnover (excluding services) is as follows:

LED lighting units, systems and solutions

The product range covers almost all areas, both for public authorities (street or ornamental lighting for monuments) and companies (commercial and industrial spaces, offices) and for individuals (lighting fixtures for domestic use).

The competitive advantage of LED lighting equipment is due to the high efficiency (over 160 lm / w), the long operating time (minimum 100,000 hours) as well as the high color rendering index (minimum 85%). In addition, LED luminaires provide quality light, are environmentally friendly and allow integration into telemanagement systems.

The production of LED lighting units has the largest share in the whole merchandise production of the Company (next to the electric car charging stations), with a total of 57.27% of sales value. In 2020, the sales for this segment represented an element of stability and continuity being almost at the same level as 2019.

Electric car charging stations

In recent years, the hybrid and electric vehicle market has experienced an accelerated development both in Europe and in Romania. "Green" cars, the electric ones along with hybrids, registered in our country, an increase in registrations (new cars) of 9% in the first nine months of 2020, according to the Association of Automobile Manufacturers and Importers (APIA), at a volume of almost 5,400 units. Of these, exclusively electric cars accelerated the most, growing by 41%.

Under the brand ELMotion, Electromagnetica was among the first local companies which designed and built such stations, starting with the year 2017.

In 2020, our company finalized the product **Fast charging station SIVE DC 50kw/AC 22kw**, which will allow simultaneous charging for 2 cars, out of which one has a 50kw power.

In order to support the owners of electric/hybrid car we have also developed the **ELMotion software**, which allows the identification of electric car charging stations and their availability at a national level. The application can be installed on mobile phones in Google Play and AppStore.

Plastic injection and molds

Electromagnetica benefits from a wide range of technologies, which enables the Company to manufacture plastic injection molded subassemblies for both the internal market and export. The Company currently owns 24 machines, the most part of the manufactured products being represented by auto parts.

The production of plastic injection molded subassemblies and molds increased by 44.5% as compared to the previous year. This group of products has the second largest share of the total exports of the Company, i.e. 22.6% of total exports. The production of plastic injection molded subassemblies also benefits from the onsite manufacture and repair of the molds.

Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB) was an element of continuity and stability in the production intended for export, being a range of products that slightly decreased in 2020 (-9.3%). Electrical switchgear represented in 2020 approximately 59% of the total exports.

Most of this activity is automatized and robotized.

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27. INFORMATION ON SEGMENTS OF ACTIVITY (continued)

Electricity production from renewable sources

The electricity production is regulated by ANRE; the Company has been a licensed producer since 2007. The company own 10 micro-hydro power plants (MHPs) along the Suceava River. In 2020, the energy production from these micro-hydropower plants registered a decrease of 18.7% compared to the previous year, due to a deficient rainfall regime, standing at 11,151 MWh.

Approximately 30% of the green certificates necessary for energy supply were ensured by the green certificates related to the own energy production. The number of green certificates granted in 2020 was of 25.001 certificates

Railway traffic safety components

The sales of railway traffic safety components decreased by 9% compared to 2019, being the activity with the highest growth, in the context of increased orders from renowned companies (such as ALSTOM, SIEMENS) that are working on the maintenance and modernization of the railway infrastructure. The future evolution of this product category broadly depends on the timetable for the modernization of the railway infrastructure.

Electricity supply service

The electricity supply business 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).

A particular emphasis was laid on risk management by the precontractual review of the consumer, as well as by sustained actions in relation to customers that exceeded the payment deadline (including by disconnection notifications) so that the overdue amounts were insignificant .

A significant part of the need of green certificates for the whole supply customer portfolio was covered in 2020 by the certificates obtained for the electricity produced by the company's own micro-hydro power plants.

Services for renting and providing utilities

Electromagnetica administers approximately 33,000 sqm of rentable premises in Bucharest, as well as 3,500 sqm in Varteju commune, Ilfov County. At the end of 2019, the average occupation level for the headquarters located at 266-268 Calea Rahovei Street was 94.43%. For the premises in Varteju commune (Magurele), the level of occupation was 94.43%.

The rental and utility supply activity increased by 8.9 % as compared to the previous year, in the context of a higher rented surface and the average Eur-Leu exchange rate which had a favorable evolution as compared to 2019. The rentable premises for offices in favor of service provision or production premises and the office tenants have remained relatively the same.

28. RISK MANAGEMENT

The Company is exposed to the following risks:

Equity risk

Equity risk management aims to ensure the capacity of the Company to carry out its activity in good conditions through the optimization of the capital structure (equity and liabilities). The analysis of the capital structure is focused on the cost of capital and the risk associated to each category. To maintain an optimum capital structure and an appropriate debt ratio, in the last years the Company proposed to its shareholders an adequate dividend policy, able to secure own sources of funding. The absence of funding sources can limit the Company expansion on the market segments where the sale is supported through the commercial facilities offered.

The Company 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 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).

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28. RISK MANAGEMENT (continued)

Equity risk (continued)

The debt ratio as at December 31, 2020 was as follows:

	December 31, 2020	December 31, 2019
Total loans (lease debts IFRS 16)	2,117,451	1,430,769
Suppliers and other liabilities	42,982,576	46,268,240
Less: Cash and cash equivalents	(20,108,460)	(21,711,183)
Net Liabilities/(Assets)	24,991,567	25,987,826
Equity	335,223,960	335,603,476
TOTAL BORROWED CAPITAL	360,215,527	361,591,302
Gearing ratio	6,94%	7.74%

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.

	2020	2019
Trade receivables (long and short terms)	77,972,098	79,797,911
Other receivables (long and short terms)	3,275,547	2,718,319
Cash and cash equivalents	20,108,460	21,711,183
	101,356,105	104,227,413

Market risk

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

The risk related to **changes in interest rates** is managed 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 exports 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.

The foreign currencies most frequently used in transactions are EUR, USD and MDL. 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.

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28. RISK MANAGEMENT (continued)

Market risk (continued)

At December 31, 2020 their situation is as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Net exposure</u>
EUR	1,531,352	648,630	882,721
USD	21,610	73,051	(51,442)
MDL	1,744,402	-	1,744,402

At December 31, 2019, their situation is as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Net exposure</u>
EUR	2,775,954	469,016	2,306,938
USD	19,067	130,371	(111,304)

The analysis of the foreign exchange risk sensitivity for a +/- 10% variation in the exchange rate shows an impact on the gross result of the period of +/- RON 448,756.

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 Company.

Price risk includes the risk of changes in acquisition prices, exchange rate and interest rate. Among the markets where the Company is present, the energy market has the highest level of price risk, given the volatility of prices on the Day Ahead Market and the Balancing Market, as well as the absence of long-term risk coverage mechanisms. The behavior of the electric power producers, consisting in selling as much as possible on the spot market, increases the price risk on that market. To control the price risk on the energy market, the Company took action for reducing its exposure by re-dimensioning its customer portfolio and externalized the balancing services.

In the pandemic international context of 2020 marked by social restrictions with limited social interaction and closure of activities due to imposed or self-imposed quarantine, the activity of purchasing raw materials was reanalyzed to avoid negative price developments and to ensure a continuous flow of supplies necessary to fulfill orders. In order to keep some products in a state of profitability, action was taken at suppliers for price control 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 should be adapted to the new demanding commercial practices. This risk is closely related to the risks we have previously described.

The status of trade receivables and payables according to maturity is presented below:

	<u>December 31, 2020</u>	<u>0 - 1 year</u>	<u>1 - 2 years</u>	<u>2 - 5 years</u>	<u>In more than 5 years</u>
Trade receivables	78,814,110	59,558,612	7,552,175	11,703,323	-
Trade liabilities	44,267,529	44,267,529*	-	-	-

*) The sum of RON 44,267,529 includes the amount of RON 9,021,307 representing the fine notified by the Competition Council. The company has requested from ANAF the suspension of this amount according to art.235 of the Fiscal Procedure Code.

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28. RISK MANAGEMENT (continued)

	<u>December 31, 2019</u>	<u>0 - 1 year</u>	<u>1 - 2 years</u>	<u>2 - 5 years</u>	<u>In more than 5 years</u>
Trade receivables	80,643,667	55,741,861	13,899,307	11,002,499	-
Trade liabilities	46,187,792	44,194,625*	1,993,167	-	-

*) The amount of RON 44,194,625 includes the amount of RON 9,021,307 representing the fine notified by the Competition Council. The company has requested from ANAF the suspension of this amount according to art.235 of the Fiscal Procedure Code.

Fair value of financial instruments

December 31, 2020	<u>Carrying value</u>	<u>Fair value</u>	<u>Level</u>
Financial assets			
Trade receivables	77,972,098	77,972,098	Level 1
Cash and cash equivalents	20,108,460	20,108,460	Level 1
Other current assets	3,275,547	3,275,547	Level 1
	101,356,105	101,356,105	
December 31, 2020			
	<u>Carrying value</u>	<u>Fair value</u>	<u>Level</u>
Long term financial liabilities			
Trade and other payables	2,481,554	2,481,554	Level 1
	2,481,554	2,481,554	Level 1
Short term financial liabilities			
Trade payables	43,787,245	43,787,245	Level 1
	43,787,245	43,787,245	
December 31, 2019			
	<u>Carrying value</u>	<u>Fair value</u>	<u>Level</u>
Financial assets			
Trade receivables	79,797,911	79,797,911	Level 1
Cash and cash equivalents	21,711,183	21,711,183	Level 1
Other current assets	1,958,307	1,958,307	Level 1
	103,467,401	103,467,401	
December 31, 2019			
	<u>Carrying value</u>	<u>Fair value</u>	<u>Level</u>
Long term financial liabilities			
Trade and other payables	1,993,167	1,993,167	Level 1
	1,993,167	1,993,167	Level 1
Short term financial liabilities			
Trade payables	46,970,845	46,970,845	Level 1
	46,970,845	46,970,845	

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28. RISK MANAGEMENT (continued)

Political and legislative risk

Considering that Romania has, after the elections, a new government supported by a stable majority and the year 2021 is not an electoral year, we have not identified political and / or legislative risks. The declared tendency of the new government is to reduce its administrative expenses and salaries and to support both subsidies and investment facilities. Under these conditions, for Electromagnetica there is an increase in its own production on several product lines.

Risk related to the lack of qualified human resources

This risk has become important both for Electromagnetica and at national level. Due to factors such as: massive immigration, strong competition and the relatively high level of wages in Bucharest area, the Company was confronted following recruitment notices with a lack of qualified workers for production activities, such as locksmiths, milling machine operators, turners, etc. To counteract this situation, we focused on the reconversion and training of own employees where layoffs were made, as well as on the continuous training of new employees. We also consider the application of an internship program with the possibility of retaining in the Company these persons at the end of the internship period.

Risk related to data protection and processing

The risk can be generated by situations such as the loss or accidental modification of data, as well as by the unauthorized access to personal data. Irrespective of the ground for processing, Electromagnetica complies with the obligations laid down by the General Data Protection Regulation – Regulation (EU) 2016/679, including the obligation to inform the data subject upon the collection of data.

Medical risks (COVID 19 pandemic)

It remains one of the most important risks that society has faced in 2021. The appearance of vaccines and the start of the vaccination campaign will determine a decrease in the incidence of infection cases. We forecast that in the second half of 2021 there will be a relaunch of the economy and an increase in product orders and customer consumption of the Energy Supply business.

Electromagnetica will continue the strict policy of measures to prevent cases of infection with employees and tenants.

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 stock market development;
- f) the principle of proactivity.

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's corporate structure.

The risk management policies of the Company are defined so as to ensure the identification and analysis of the risks the Company is facing, determine the appropriate limits and controls and monitor the risks 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 at developing an orderly and constructive control environment where all employees understand their roles and duties.

The internal audit of the Company's 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 facing.

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29. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2020, the Company had the following commitments granted for bank loans and guarantee agreements / credit agreements concluded with the financing banks (BCR, BRD, Libra Internet Banking, OTP BANK):

- for bank credits as working capital the amount of RON 23,590,000
- Non-cash guarantee agreements in amount of RON 46,581,748

As of December 31, 2020, the Company had at its disposal an amount of RON 23,590,000 not drawn from the loan facilities contracted with the banks.

As of December 31, 2020, the Company had at its disposal the amount of RON 18,309,492, as unused, from the non-cash facilities for letters of guarantee.

The commitments granted to the Company are guaranteed with accounts opened with creditor banks, receivables, collateral deposits in the amount of RON 171,748, tangible assets (land, buildings) in the amount of RON 112,344,122 (Note 4).

The commitments received from clients and tenants in the form of letters of guarantee on December 31, 2020, are worth RON 178,255 according to the contractual clauses.

Litigation

The litigations in which the company is involved are values that are not likely to affect the financial stability of the company. The company manages litigations through its own legal department and through collaborations with external partners specialized in managing specific conflicts.

30. SUBSEQUENT EVENTS

The influence of the regularization of the final share of green certificates for the energy supply activity carried out in 2020 was not reflected in the financial statements due to the late publication of ANRE order no. 9 / 24.02.2020. Regularization will not influence profit.

Also, the management has no knowledge of events, economic changes or other factors of uncertainty that could significantly affect the company's income or liquidity, other than those mentioned.

These separate financial statements were approved for issue by the management as at March 24, 2021:

EUGEN SCHEUŞAN
Managing Director

CRISTINA FLOREA
Economic Manager

BOARD OF DIRECTORS REPORT FOR THE FINANCIAL YEAR 2020
ON THE ECONOMIC AND FINANCIAL ACTIVITY OF ELECTROMAGNETICA SA

- SEPARATE STATEMENTS -

according to Article 67 of Law no. 14/2017 on issuers of financial instruments and payment operations, and to annex 15 to the Financial Supervisory Authority (ASF) Regulation no. 5/2018 and to the Code of Bucharest Stock Exchange

1. ELECTROMAGNETICA IDENTIFICATION DATA:

Report date: **March 24, 2021**
Company name: **Electromagnetica SA**
Registered office: **266-268 Calea Rahovei Street, District 5, Bucharest, postal code 050912**
Tel/ Fax: **021 404 21 02/ 021 404 21 95**
Tax ID: **RO 414118**
Trade Register no: **J40/19/1991**
Regulated market: **Bucharest Stock Exchange (BVB), Equity securities, Shares, Premium category**
Stock symbol: **ELMA**
Number of shares: **676,038,704**
Nominal value: **RON 0.1000**
Share capital: **RON 67,603,870.40**

2. COMPANY OVERVIEW

Electromagnetica SA is a Romanian legal entity incorporated in 1930 under the legal form of joint stock company for an unlimited duration and organized and operating under its articles of incorporation, Law no. 31/1991 republished in 2004 and amended by Law no. 441/2006, the Government Emergency Ordinances (GEO) nos. 82/2007 and 52/2008, and Law no. 24/2017 regarding the *issuers* of the financial instruments and market operations.

The Company share capital is 67,603,870.40 lei divided into 676,038,704 ordinary shares, registered and dematerialized, which are recorded in electronic account in the shareholder register held by Depozitarul Central SA (Central Securities Depository). 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, Premium category, ELMA stock symbol, has adopted the IFRS (International Financial Reporting Standards) starting with the financial year 2012. The financial statements for 2018 were prepared in compliance with Order no. 2844/2016 of the Minister of Public Finance (OMFP) approving the accounting regulations compliant with the International Financial Reporting Standards adopted by the European Union.

2.1. Mission, vision, values

THE MISSION of ELECTROMAGNETICA's top management and employees is to provide high performance solutions based on new technologies, in order to fully satisfy customers, while ensuring a sustainable and predictable development that provides security and confidence to shareholders.

Our **VISION** for the accomplishment of the assumed mission, responding and anticipating the requirements of the markets on which it evolves, is to develop especially new products resulting 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. The company intends to maintain a high degree of flexibility of production, its balanced diversification, reinvestment of part of the profit and financing mainly from its own sources as well as the constant search for markets and new customers.

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:** working together; If we collaborate, discuss, listen and help each other, we will have much better results. We constantly measure customer satisfaction and have contact with them in all phases of contracting - production - delivery - warranty insurance, reacting promptly based on the feedback received;
- **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;
- **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. ELECTRICITY PRODUCTION AND SUPPLY**
- C. RENTAL OF PREMISES AND REAL ESTATE DEVELOPMENT**
- D. OTHER PRODUCTS AND ACTIVITIES DEVELOPED**

2.3. Merger and reorganization of the companies controlled by Electromagnetica in 2020

The group of companies for which Electromagnetica SA is the parent-company includes the companies Procetel SA, Electromagnetica Goldstar SRL, Electromagnetica Fire SRL and Electromagnetica Prestserv SRL and they mainly represent externalizations of some services, in order to better manage the activities.

In 2020, a main event was the liquidation of Electromagnetica Goldstar S.A. approved by the Extraordinary General Assembly of Shareholders on April 26th, 2017. On July 6th, 2020 the decision of the Sole Shareholder of the Company was issued, by which Electromagnetica decided the simultaneous dissolution and liquidation of the company, in accordance with the provisions of art. 227 para. (1) lit. d) and, respectively, art. 235 of the Companies Law no. 31/1990. The assets of the dissolved company were taken over by Electromagnetica, and will be capitalized by renting. The modernization procedure of the building body that belonged to ELECTROMAGNETICA GOLDSTAR S.R.L was started for its bringing to a high standard of comfort and image.

2.4. Main events with significant impact in the functioning of the company

During 2020, the COVID 19 pandemic had a significant impact on the Electromagnetic activity, affecting the company's results.

This event had both direct effects, in the organization and development of activities and indirect by decreasing the volume of orders received from customers.

Sustained efforts were made to prevent infections, applying preventive and access control measures such as monitoring the temperature at the entrance, repeated disinfection of the spaces during the day, installation of antibacterial gel dispensers at the main access doors, training of employees and shifting program. At the same time, where the activity allowed it, it went, through rotation, to the telework regime.

In the case of SARS-COV 2 virus infection (or even the suspicion of such a possibility) in employees, epidemiological investigations were performed and extensive testing of the respective employees or colleagues of the infected persons was performed. Thus, during 2020, more than 90 antibody tests and 482 PCR tests were performed. They were distributed free of charge, weekly, to the employees disposable protective masks. The infected persons were provided with a first counseling by the occupational medicine doctor, recommending in all cases the isolation at home and contacting the family doctor and the DSP.

Through the Legal Office, the heads of jobs were regularly informed of the decisions and decisions taken by the Government, the Committee for Emergency Situations, the Ministry of Health and other bodies involved, and they will disseminate the information to subordinates.

Regarding the indirect effects of the COVID 19 pandemic, it should be noted that some customers have reduced or canceled their orders and there have been delays in the supply of raw materials and materials, especially those imported. However, even in the situations mentioned above, ELECTROMAGNETICA managed, by organizing the production and ensuring a larger stock of raw materials and diversifying the suppliers, to honor in time all the concluded contracts.

In terms of electricity supply, the pandemic has led to a decrease in final consumption to beneficiaries, partially offset by attracting new customers.

2.5. Other important events

During 2020, the SIVE DC 50 KW / AC 22 kW electric car charging station was developed, as well as the management program for ELMotion electric vehicle charging stations.

2.6. Overall evaluation elements:

No.	Specification	2020	2019
1	Total revenue (lei)	304,294,329	277,137,118
2	Total expenses (lei)	302,108,321	272,155,915
3	Gross profit (lei)	2,186,008	4,981,203
4	Net profit (lei)	2,324,301	4,488,687
5	EBITDA margin	4.08%	9.47%
6	EBIT margin	0.73%	1.79%
7	Net profit ratio	0.76%	1.75%
8	Current liquidity	206%	194%
9	Capital solvency	83%	82%
10	ROE	0.69%	1.34%
11	Accounts receivable collection period (days)	98	111
12	Supplier payment period (days)	70	90
13	Average active employee headcount	387	454

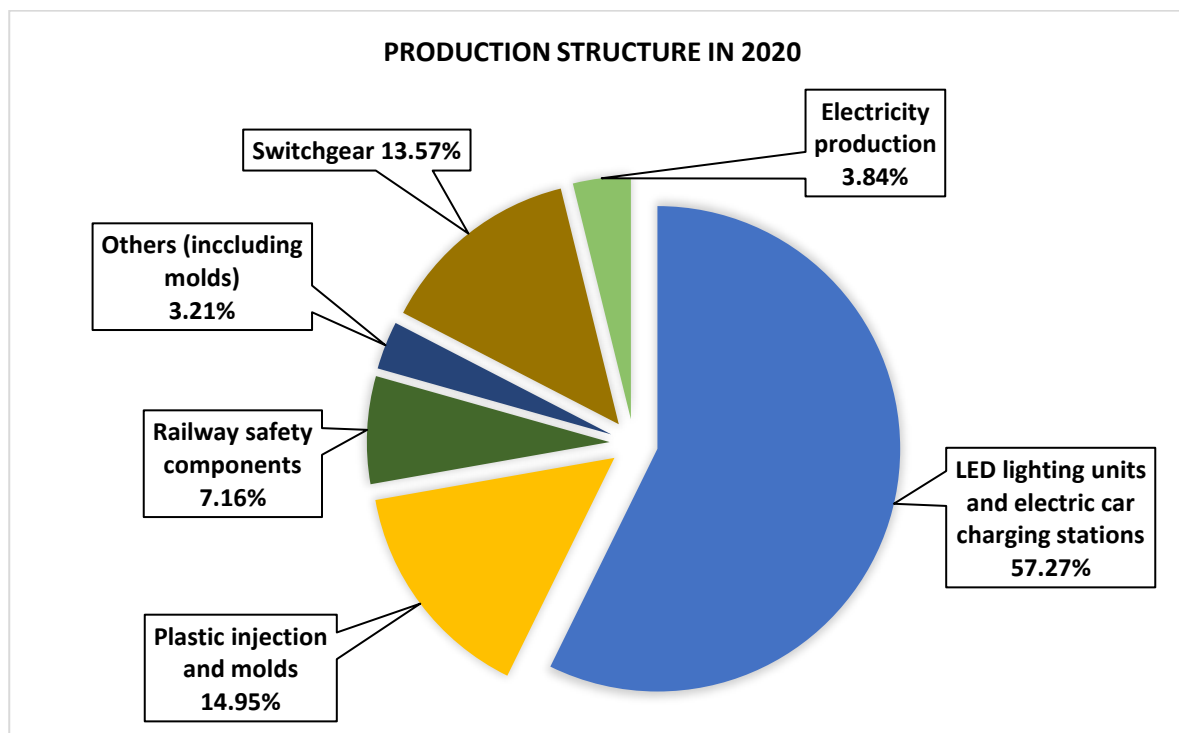
Considering the difficult social and economic conditions of 2020, The Company achieved operational profit, having a good capital solvency.

The income from energy supply have increased by 18%, mainly due to trading activity. The main increases were registered for plastic injection products (+44.5%) and rental services (+8.9%). Few other segments decreased in value such as: energy production (-18.7%), electric gear (-9.3%). LED lightning units, with the most important share in production, have remained at about same value as in 2019.

3. PRODUCTS AND SERVICES PROVIDED BY ELECROMAGNETICA

3.1. PRODUCTION STRUCTURE

The Company benefits from a wide range of technologies and equipment that enables it to obtain a rich diversity of products. The share of the main groups of products in the production-related turnover (excluding services) is as follows:



3.2. PRODUCTS AND SERVICES FOR INCREASED ENERGY EFFICIENCY

3.2.1. LED lighting units, systems and solutions

Electromagnetica S.A. implements customized lighting solutions according to customer needs, starting from product design to photometric testing according to international standards and ending with their certification, subsequently implementing the optimal solution agreed by the customer.

The production of LED lighting units occupies the largest share in the company's merchandise production, having (along with electric vehicle charging stations) a share of 57.27%. In 2020, sales in this segment were an element of continuity, being approximately the same as in 2019. The product range covers almost all areas, both for public authorities (street lighting or ornamental for monuments) and companies (commercial and industrial spaces, offices), as well as for individuals (lighting fixtures for domestic use).

The competitive advantage of LED lighting equipment is due to the high efficiency (over 160 lm / w), the long operating time (minimum 100,000 hours), as well as the high color rendering index (minimum 85%). In addition, LED luminaires provide quality light, are environmentally friendly and allow integration into telemanagement systems.

An important event in 2020 was the introduction in series production of the ElmaRO street lighting fixture (CIL) made of plastic housing and heat-conducting plastic radiator.

Among the most important projects we can mention the UEFA standard night lighting of the athletics stadium in Craiova, the lighting of the Bacau ring road or the lighting of the A 10 highway, the Sebes - Turda section. Also, a contract of 1 million EURO was concluded for the interior lighting of a new building with a construction in 2021 in which 16,000 lighting fixtures made in its own conception will be used.

3.2.2. Electric car rechargeable stations

In recent years, the hybrid and electric vehicle market has experienced an accelerated development both in Europe and in Romania. "Green" cars, the electric ones along with hybrids, registered in our country, an increase in registrations (new cars) of 9% in the first nine months of 2020, according to the Association of Automobile Manufacturers and Importers (APIA), at a volume of almost 5,400 units. Of these, all-electric cars accelerated the most, growing by 41%.

This evolution was also driven by GEO no. 17/2019 for the amendment and completion of GEO no. 66/2014 on the approval of the Program to stimulate the purchase of new cars which has as object of regulation "the promotion of clean and energy efficient road transport vehicles that are subject to the RABLA Plus Program, so that its beneficiaries are eligible under the Program , together with the beneficiaries of the RABLA Classic Program ".

To maintain this trend, it is necessary to build an extensive network of charging stations throughout the country. In this sense, there are several financing programs in Romania, one of them being of the Agency for the Environmental Fund, through which the companies or territorial-administrative units can obtain financing of up to 900,000 lei / applicant. The Ministry of Energy also launched the ELECTRIC UP program for the installation of photovoltaic panel systems for electricity production with an installed power between 27 kWp and 100 kWp required for own consumption and delivery of surplus in the National Energy System, as well as the installation of at least one recharging stations of at least 22 kW for electric vehicles and plug-in hybrid electric vehicles with at least two charging points.

Electromagnetica was among the first local companies that under the ELMotion brand designed and built such stations starting with 2017.

In 2020, our company completed the product SIVE DC 50kW / AC 22kW fast charging station, which will allow the simultaneous charging of two cars, one of which has a power of 50 kW / 100 kw.

In order to support the owners of hybrid / electric vehicles, the ELMotion software was developed, which allows the identification of charging stations at national level and their availability. The application can be installed on mobile phones in Google Play and AppStore

3.2.3. Low voltage electrical switchgear

The production of low voltage electrical switchgear (for ABB) was an element of continuity and stability in the production intended for export, being a range of products that decreased in 2020 as compared to 2019 (-9.3%). Electrical switchgear represented in 2020 the highest share of the total exports by 59%.

Most of this activity is automatized and robotized.

3.3. ELECTRICITY PRODUCTION AND SUPPLY

3.3.1. Electricity production from renewable sources

Energy production is a field regulated by ANRE, the company holding a producer license since 2007. The company owns 10 micro hydropower plants in the Suceava river basin, which have been modernized and automated over time. In 2020, the energy production in its own micro-hydropower plants registered a decrease of (-18.7)% compared to the previous year, due to a deficient rainfall regime, standing at 11,151 MWh.

Approximately 30% of the green certificates necessary for energy supply were ensured by the green certificates related to the own energy production. The number of green certificates granted in 2020 was 25.001 certificates.

3.3.2. Electricity supply activity

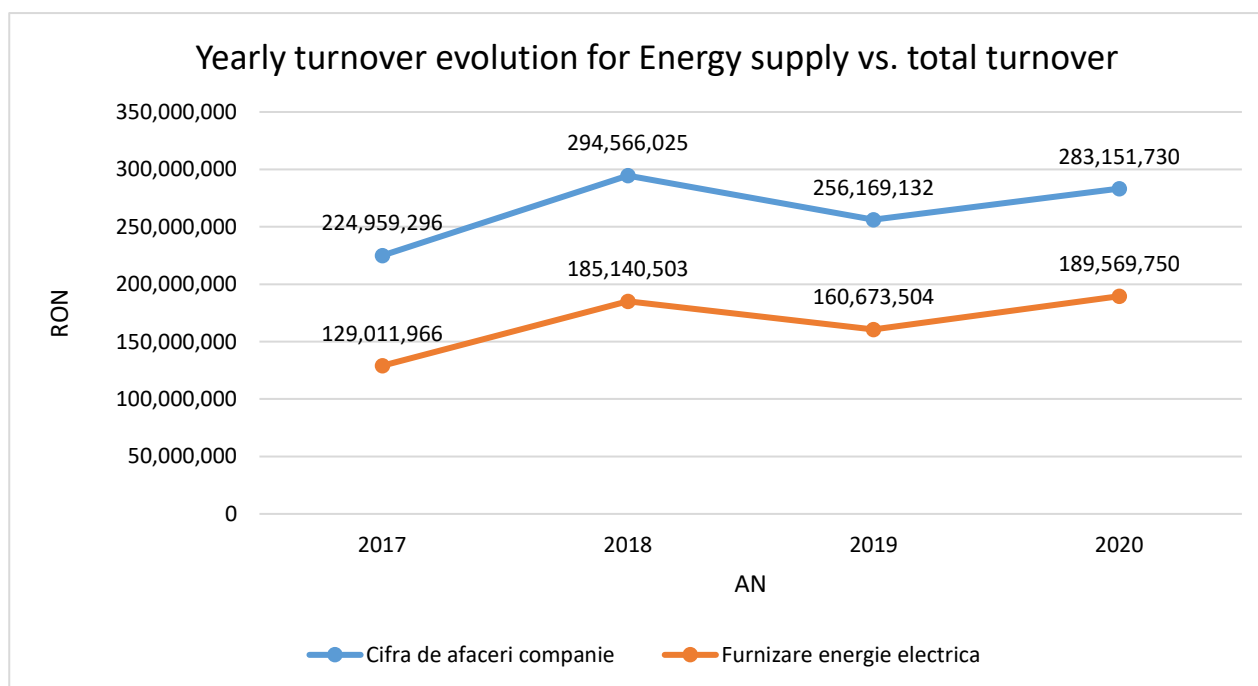
The electricity supply business is regulated by ANRE. The Company has been an authorized supplier since 2001; in 2013 the license was renewed for another 10 years, under the provisions of the new energy law (Law no. 123/2012).

A particular emphasis was laid on risk management by the precontractual review of the consumer, as well as by sustained actions in relation to customers that exceeded the payment deadline (including by disconnection notifications) so that the overdue amounts were insignificant.

A significant part of the need of green certificates for the whole supply customer portfolio was covered in 2020 by the certificates obtained for the electricity produced by the company's own micro-hydro power plants.

In the second half of 2020, ANRE approved regulated tariffs for FUI (Suppliers last resort) having as source of acquisition prices and regulated quantities from state producers, at substantially lower prices than in the competitive energy market. This further disrupted the energy market in the second half of the year as FUIs purchased regulated energy at better prices and led to unbalanced competition in the end consumer market.

The evolution of electricity supply in the last 4 years is presented in the graph below:



3.4. RENTAL OF PREMISES AND REAL ESTATE DEVELOPMENT

Electromagnetica administers approximately 33,900 sqm of rentable premises in Bucharest, as well as 3,500 sqm in Varteju commune, Ilfov County. At the end of 2020, for the headquarters in Calea Rahovei 266-268, the average occupancy rate was 94.34%. For the spaces in Varteju commune (Magurele), the occupancy rate was 94.43%. The structure by destinations of the spaces for rent on 31.12.2020 is as follows:

Item no.	Destination of rentable premises at the headquarters	Share %	Destination of rentable premises in Varteju	Share %
1	Offices	44.51	Offices	3.38
2	Warehouses	25.97	Warehouses	33.84
3	Production	14.17	Production	54.23
4	Services	15.35	Services	8.65

The rental and utility supply activity increased by 8.9 % as compared to the previous year, in the context of a higher rented surface and the average Eur-Leu exchange rate which had a favorable evolution as compared to 2019. Compared to the previous year, the share of office space, services and production remained relatively the same.

Revenues from the rental activity will continue to be under pressure, taking into account the restriction of the activity of some tenants or their migration to spaces with additional facilities and reduced rates, especially for the storage and production area. The high level of deliveries on the office market and especially of the modern ones, will lead to exceeding the demand for offices in Bucharest, thus leading to a possible decrease in occupancy, especially for older buildings or located in hard to reach areas.

In order to capitalize on the real estate assets outside the headquarters, feasibility studies were prepared for part of the lands in Bucharest and Ilfov County, these being detailed in point 12.3.

An Electromagnetica's premises we have developed a charging hub with 9 AC + DC Fast Charge stations and 21 AC charging stations where electric vehicles from Spark and Teleport are charged. This project has several advantages, from the supply of electricity for electric vehicles to the validation of technical solutions for both the hardware and the software.

3.5 OTHER DEVELOPED PRODUCTS

3.5.1. Plastic injection and molds

Electromagnetica benefits from a wide range of technologies, which enables the Company to manufacture plastic injection molded subassemblies for both the internal market and export. The Company currently owns 24 machines, the most part of the manufactured products being represented by auto parts. The company produces plastic subassemblies for Draexlmaier Romania which, in turn, supplies products for BMW and Maserati.

One of the important clients in this production segment is Makita Romania, which has considerably increased its orders for boxes, housings and various plastic parts, subassemblies of other drilling and cutting machines.

The production of injected plastic subassemblies and molds increased to 44.5% compared to the previous year when it stood at 9.9% of the sales of own production.

This product group has the second largest share in the company's exports, with 22.6% of the total. The production of injected plastic subassemblies has the benefit of internal design, manufacture and repair of the molds.

3.5.2. Railway traffic safety components

Sales of railway traffic safety items decreased by 9% compared to 2019, orders for this production segment from prestigious companies such as ALSTOM and SIEMENS, being largely dependent on the pace of modernization of railway infrastructure, having in view that CFR Infrastructure is the final beneficiary of these services.

4. EVALUATION OF THE SOURCING ACTIVITY. STOCKS

4.1. Sourcing activity

The supply activity was carried out in accordance with the procedure implemented within the integrated management system and in compliance with the requirements imposed by the standards in the fields in which the company operates.

The suppliers of raw materials and materials necessary for the production and operation of the other segments within the company are selected and evaluated annually based on the performance criteria that take into account the available certifications, product quality and commercial conditions.

Given the quality requirements imposed by the production of railway traffic safety elements, the production of plastic parts for well-known car brands, but also the production for the recently introduced segment of car charging stations, the supply is made in strict compliance with some standards regarding the materials used under the consideration that the suppliers must have specific certifications.

The long collaboration with internal and external suppliers for significant materials has given security to contractual relations and despite the difficulties caused by the COVID-19 pandemic, the supply of materials and components took place in 2020 in optimal conditions, ensuring continuity of production flow for both body segment, LED lighting, as well as for plastic injection for export.

For LED lighting products, the most significant sector in our own production, the materials used come from world-recognized manufacturers: Lumileds, Osram, CREE, Samsung, LEDIL, Tridonic, Vossloh-Schwabe, so we offer customers a long-term quality guarantee. .

The prices were established by direct negotiation with several suppliers, constantly aiming to obtain commercial advantages and the best price / quality ratio.

For 2021, the company aims, both based on firm contracts / orders and short / medium term forecasts, to ensure the materials in the same terms of technical and qualitative performance, identifying opportunities to purchase at the most advantageous prices. Increased attention will be paid to optimizing supply costs for both the production of charging stations for electric vehicles and for intelligent lighting systems, so that Electromagnetica occupies an important position in the profile market.

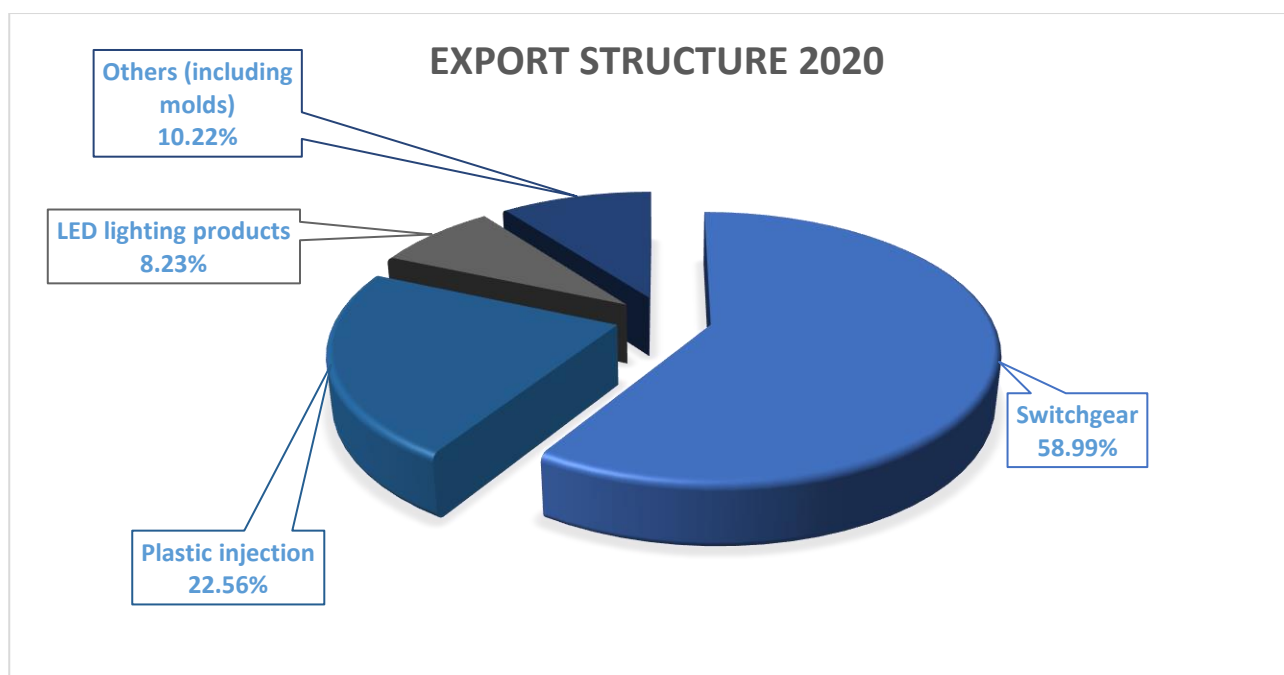
5. EVALUATION OF THE SALE ACTIVITY

5.1. Evolution of sales on the domestic and external market and perspectives for medium- and long-term sales

The distribution on the market of the LED lighting units and systems is mainly done directly by the Company through its specialized division from the commercial directorate. There is also a specialized office for participating in SEAP auctions (both for LED lighting products and for electric vehicle charging stations).

The export is traditionally supported by low voltage electrical equipment and a large part of the production of plastic injection molding. In the next period, the production of plastics will be gradually oriented towards products with a high degree of complexity, a change that will lead to an increase in profitability.

LED lighting fixtures, 8.23% of total exports in 2020, represent the fourth range of products as an export share, with great growth potential.



The licensed activities, of production and supply of electricity, are carried out exclusively on the internal market. Similarly, the production of elements for railway traffic safety has an exclusive sale on the domestic market.

Regarding the medium and long term sales assurance, we specify that the average duration of the lease contracts is approximately 2 years, that of the energy supply contracts is 1 year, while the production is generally executed based on the orders on medium and short term. The contracts for the sale of LED lighting systems through supplier credit, usually extend for periods of 5 years.

5.2. Main competitors

The LED lighting technology is now the most efficient lighting solution, achieving more and more fame. Electromagnetica is the main domestic producer of products competing with those imported from other countries. Among Electromagnetica products, the most successful were the lighting units for commercial and industrial premises, as well as the street lighting units. The Company has a wide range of LED products competing on several price segments. The main competitors of the Company are Philips and Schreder (high price), Elba, Amiras, Electromax, Greentek (medium price) and Spot Vision, Urbio (low price segment).

On the market of electricity supply services, the competition is very high, currently activating on this market 59 suppliers, 29 producers that also have sales activity plus 5 suppliers of last resort.

On the local market of railway traffic safety systems, the number of purchase orders depends on the progress of the programs for the modernization of the railway infrastructure, provided that the Company takes the necessary steps to ensure the flexibility of its production and to be able to cope with the fluctuating orders.

5.3. Significant dependencies of the Company on a customer or group of customers

At this time, the highest share in sale products, such as LED luminaires, electrical appliances and plastic injection, address a diverse range of beneficiaries and are not dependent on a particular customer or group of customers. The supply of electricity follows the same rule. The elements for railway traffic safety, which have as final beneficiary CFR Infrastructure, depend on the modernization program of the railway infrastructure in Romania.

6. EVALUATION OF PERSONNEL-RELATED ISSUES

The high level of employee training allowed the company to undertake both productive and research and development activities. In 2020, the average number of employees was 387, down 15% from the previous year.

In 2020, because of declining orders, the company reduced its working hours to 4 days for 3 months, with a proportional reduction in revenues. In this way it was possible to avoid dismissals and keep qualified employees. Of these, 30% have higher education and 35% have secondary education. The company's staff follows a continuous professional training program, each employee benefiting from an average of 25 hours / year of professional training or internal and external training on quality, occupational health and safety, environment, etc.

No new cases of occupational diseases were registered. The relations between management and employees took place under normal conditions. The degree of unionization is about 73% and there were no labor disputes between employers and unions. More information on social and personnel policy, occupational health and safety policy, human rights policy and related risks and key performance indicators is available in the Board's Non-Financial Statement for 2020 published together with this report on the company's website www.electromagnetica.ro.

7. COMPANY BUSINESS 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 fulfillment 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 following:

- the waste management procedures, emergency procedures, production retrofitting,
- implementation and compliance with emergency situation procedures,
- 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.

Further information about the Company environmental policy, the risk factors and key performance indicators is available in the non-financial declaration of the Board of Directors for 2019, published together with this report on the Company website www.electromagnetica.ro.

8. EVALUATION OF THE RESEARCH AND DEVELOPMENT ACTIVITY

The research-design-development activity is carried out within the following departments: the Research and Design Department, which includes the Photometry and Electromagnetic Compatibility Laboratory, the Electrical Equipment Design and Communication Department, and also the Self-Equipping Design Workshop. Considering that most of the products manufactured by Electromagnetica are products of its own conception, 9.8 % of the Company staff worked in research-design-development in 2020.

8.1. LED lighting units and systems

The main objective of technological and constructive research in 2020 was the introduction in series production of linear LED lighting fixtures made of extruded aluminum profiles and outsourcing the production of mechanical subassemblies to existing fixtures, in order to reduce manufacturing costs.

In the Company stock there are 389 LED lighting units (CIL) organized in 37 product families, of which 59 CIL and 8 electric car charging stations were introduced in the manufacturing process in 2020.

It was introduced in the series production of CIL street, ElmaRO, made in plastic housing and radiator made of thermally conductive plastic with added value in Electromagnetica significantly higher than in the luminaires made in imported cast housings.

With high performance projectors type AQUILLA of 700W, researched and designed in society, it was made the night lighting to UEFA standard of the athletics stadium in Craiova.

A contract of 1 million EURO was concluded for the interior lighting of a new building with a construction in 2021 in which 16,000 lighting fixtures made in our own conception will be used. Two new families of IASON and ENIF products have been designed for this project, integrated in modern Sapp and EasyClima type ceilings.

For 2021, the main objective is the integration of the current applications developed by Electromagnetica in SmartCity platforms. This involves creating access capabilities in management platforms for the integration of LED lighting systems, the integration of traffic sensors, fog, rain, snow, air quality, temperature, humidity, wind, data exchange with the ENERGYSys measurement and remote management system, as well as taking over the information about the charging stations from the ELMotion platform.

8.2. Measurement and remote management systems

During 2020, the implementation of ENERGSys in public lighting systems continued. Thus, the application has the role of managing the ignition points, operating the lighting system in automatic mode (according to a predetermined program) or in manual mode (local or remote), as well as monitoring energy consumption, monitoring network status and quality of electricity.

At the same time, the software system was developed to ensure the fulfillment of the current requirements regarding the liberalization of the energy market, ensuring the generation of reports and load curves on 15-minute intervals. In October 2020, a support contract was signed for the operation of the system with Electrica for a period of one year, which includes maintenance operations and software developments. The implementation of other meter models in the system was continued.

For 2021, the development of a new data concentrator for ENERGSys is considered, which will ensure a wider connectivity, which will be used mainly in Smart City type projects. For this, the new type of concentrator must, in addition to reading the electricity meters and the ON / OFF command function, be able to ensure the reading of sensors such as: air quality sensor, temperature sensor, humidity sensor, etc.

8.3. Charging equipment for electric vehicles

The Company's development strategy has also considered the electro mobility infrastructure as a way to grow and exploit its experience in the field of energy and rectifiers.

During 2020, the development of the 50kW Fast Charger charging station was continued, which was certified at OICPE in October and the development of a 100kW charging station began. In parallel, tests were performed with another model of load controller to achieve an alternative technical solution at a competitive price.

In September 2020, the ELMotion mobile application was launched for electric vehicle users. It is available in the AppStore and Google Play and ensures the entire upload process, starting with the visibility of the stations on the map, starting and stopping the upload process, payment by bank card and issuing invoices. In December, the management application of the charging stations was launched, which ensures the configuration functionalities of the stations in the system and the reports on transactions, receipts and consumption curves at 15 minutes.

8.4 Smart City Platform

For 2021, a development perspective is represented by the integration of the current applications developed by Electromagnetica in the SmartCity platform.

This would involve exchanging data with the ENERGSys measurement and remote management system as well as retrieving information about charging stations from the ELMotion platform. At the same time, the basic functionalities of the new ENERGSys data concentrator should be integrated in the Smart City platform.

9. INTEGRATED MANAGEMENT SYSTEM

9.1. Quality management system

As in previous years, in 2020 Electromagnetica aims to ensure full compliance with the explicit requirements and expectations of customers, as well as with regulations and legal provisions.

Consistent with the stated policy principles, the necessary resources were provided for:

- design, development, execution, marketing and after-sales support of products and services offered, that fully meet the requirements and expectations of our customers on quality, legal and regulatory requirements and reasonable expectations of stakeholders, using clean and safe technologies to lead and improve environmental performance - occupational health and safety;

- setting measurable annual objectives and performance indicators appropriate to maintenance balance and development in the society;

- maintaining the certifications of the Integrated Management System according to the reference standards;
- continuous improvement of the effectiveness of the Integrated Management System for fulfilling the policy and achieving the proposed objectives;
- monitoring, measuring and continuously improving the level of customer satisfaction;
- monitoring, measuring and ensuring economic efficiency, in all actions taken.

9.2. Certifications for management systems and laboratories

In 2020, all previously obtained system certifications were maintained.

a) Certifications of the Integrated General Management System: EN ISO 9001: 2015 - "Quality Management Systems. Requirements"; EN ISO 14001: 2015 - "Environmental Management Systems - User Guided Requirements"; OHSAS 18001: 2008 - "Occupational Health and Safety Management Systems. Specification";

b) Certification of the Quality Management System for automotive products based on plastic injection: IATF 16949: 2016 - "Quality management systems requirements for automotive production and relevant service parts organizations"

10. RISK MANAGEMENT OBJECTIVES AND POLICIES. RISK FACTORS.

c) Re-accreditation of the Metrology Laboratory according to SR EN ISO / CEI 17025: 2005 - "General requirements for the competence of testing and calibration laboratories".

d) Accreditation of the Photometric and Electromagnetic Compatibility Laboratory according to the new specific standard ISO 17025: 2018. The laboratory is accredited for 8 fields of activity: 5 fields for photometric measurements and 3 for electromagnetic compatibility measurements.

For 2021 are planned the following:

- maintaining the accreditation of the Metrology Laboratory, during its operation;
- maintaining the accreditation of the Photometric and Electromagnetic Compatibility Laboratory;
- recertification of the Quality Management System for products from the automotive industry based on plastic injection according to the IATF 16949: 2016 standard;
- Recertification of the integrated general management system according to the standards EN ISO 9001: 2015 - "Quality management systems. Requirements"; EN ISO 14001: 2015 - "Environmental management systems - Requirements with user guide" and SR ISO 45001: 2018- "Occupational health management systems. Requirements and guidelines for use".

10. RISK MANAGEMENT OBJECTIVES AND POLICIES. RISK FACTORS.

The risk management policies are defined in such a way that they ensure the identification, monitoring and analysis of the risks which the Company faces, establishing, at the same time, the limits of exposure. The risk management policy provides effective means of control and a favorable environment where all employees understand their roles and obligations.

Risk induced by the COVID pandemic 19

It remains one of the most important risks that society has faced in 2020. The appearance of vaccines and the start of the vaccination campaign will determine a decrease in the incidence of infection cases. We predict that in the second half of 2021 there will be a relaunch of the economy and an increase in product orders and customer consumption of the Energy Supply business.

Electromagnetica will continue the strict policies of measures to prevent cases of infection in employees and tenants.

Market risk (includes the price risk and implies the risk due to technological changes)

Among the markets in which the company operates, the energy market is the one with the highest price risk, taking into account the volatility and the sharp increase in prices in recent years on the Next Day Market and the Balancing Market (large producers preferred to maximize their profits selling large quantities in these markets to the detriment of a long-term contracts), as well as the lack of long-term risk hedging mechanisms. The behavior of energy producers to sell as much energy as possible in the spot market is likely to increase the price risk in this market. To control price risk in the energy market, measures have been taken to limit exposure to short-term contracts and balancing services have been outsourced. This risk is also important on the LED lighting market as well as in terms of plastics injection, areas where there is strong competition from both domestic manufacturers and distributors of imported products.

Exchange rate risk

The Company is exposed (to a limited extent) to an exchange rate risk because the sourcing of materials is largely based on imports. In order to limit the effect of the exchange rates, the payment calendar was correlated with that of receipts in foreign exchange, usually ensuring a cash-flow surplus. The change of the raw materials and materials prices imposed a continuous review of cost prices. To maintain some of the products profitable, a part of the prices were renegotiated and the related technological processes were improved.

Risk of non-payment

The credit risk consists in the eventuality that the contracting parties violate their contractual obligations leading to financial losses for the company. When possible, the practice of the market allows the company to request guarantees. Trade receivables come from a wide range of clients who work in various fields of activity and in different geographical areas. To counteract this risk factor, the company applied policies for pre-contractual verification of customers (such as RISCO and COFACE reports). Debt insurance policies have been contracted on the foreign market. The risk of changes in the interest rates is maintained under control by adopting an investment policy exclusively based on own funding sources, which allows for the use of credit lines only for the working capital.

In order to recover the overdue receivables, the Legal Department issued summons followed by actions in court (payment orders) and then, as the case may be, forced execution. Thus, most of the receivables have been recovered or are to be recovered. There were also clients who went into insolvency or in the preventive composition procedure, but their share is low.

Equity risk

Equity risk management aims to ensure the capacity of the Company to carry out its activity in good conditions through the optimization of the capital structure (equity and liabilities). The analysis of the capital structure is focused on the cost of capital and the risk associated to each category. To maintain an optimum capital structure and an appropriate debt ratio, in the last years the Company proposed to its shareholders an adequate dividend policy, able to secure own sources of funding. The absence of funding sources can limit the Company expansion on the market segments where the sale is supported through the commercial facilities offered.

Liquidity and cash flow risk

The Company cash flow department involves forecasts on the liquidity reserve and maintaining an 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% of the total non-current assets, less receivables, to ensure the Company's capacity to perform its obligations in case of short-term cash deficit. 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 should be adapted to the new and more demanding commercial practices. This risk is closely related to the risks described above.

Risk related to the lack of qualified human resources

This risk has become important both for Electromagnetica and at national level. Due to factors such as: massive immigration, strong competition and the relatively high level of wages in Bucharest area, the Company was confronted following recruitment notices with a lack of qualified workers for production activities, such as locksmiths, milling machine operators, turners, etc. In order to counteract this situation, emphasis was placed on the reconversion and qualification of its own employees where vacancies appeared through retirement and also on continuous professional training programs for new employees. We also consider the application of an internship program with the possibility of retaining in the Company these persons at the end of the internship period.

Risk related to data protection and processing

The risk can be generated by situations such as the loss or accidental modification of data, as well as by the unauthorized access to personal data. Irrespective of the ground for processing, Electromagnetica complies with the obligations laid down by the **General Data Protection Regulation – Regulation (EU) 2016/679**, including the obligation to inform the data subject upon the collection of data.

Penalty risk

The company manages these risks both through preventive actions. This includes monitoring legislative changes and informing colleagues, participation in courses and seminars (labor and competition law, GDPR - personal data protection, risk management and corporate governance, etc.) and last but not least, employee compliance courses. In the first two months of 2021, a Manual for compliance with the competition rules was elaborated, which will be approved by the Board of Directors and subsequently adopted by all employees in Sales, Acquisitions and Energy Production / Supply.

Dispute-related risk

The litigations in which the company is involved do not have values that would affect the financial stability of the company, especially since in most cases Electromagnetica is in the position of creditor. In all cases, including those as creditors to insolvency / bankruptcy companies, procedural positions were formulated, in most cases being present at each procedural term. In 2021, deadlines are scheduled at the High Court of Cassation and Justice for the appeals filed by Electromagnetica in the files for annulment of the decisions of the Competition Council 82/2015 and 77/2017, respectively, and of the related fines. Given that these fines were foreseen in the respective financial years, there is only the prospect of improving the financial situation through a favorable solution.

Given that Romania has, after the elections, a new government supported by a stable majority and the year 2021 is not an election year, no political risks have been identified. The legislative risks are very much related to the evolution of the COVID 19 pandemic, in case of negative evolutions being possible the prolongation of the alert state and / or the introduction of new restrictions that could affect in the medium term both the production activity and the supply of raw materials or timely delivery. to beginners.

Other risks – downgrade in Bucharest Stock Exchange to Standard category trading shares

One of the necessary conditions for maintaining trading in the Premium category is the existence of an increased liquidity and a free-float (existence of shares distributed to the general public) amounting to at least 40 million Euros. Electromagnetica does not currently meet this condition and it is possible that BVB will downgrade the company from the Premium category to the Standard category.

Risks covered by insurance policies

These include: the risk of natural disasters, the risk of accidental damage, the risk of business interruption, the risk of recovering the debts of various debtors, the risk of injury to exposed employees, protection of assets by insurance, liability to third parties, liability as producer, professional liability for some professions, liability of administrators. The activity of producing electricity in low power plants, so without storage lakes, is subject to risks of destruction caused by floods. Under these conditions, the company acted in the sense of concluding insurance policies against disasters to protect the MHCs as well as the buildings from the headquarters.

11. COMPANY BUSINESS PROSPECTS

11.1. Presentation and analysis of trends, elements, events or uncertainty factors that affect or could affect company profitability and liquidity compared to the same period of the previous year

Market trends

LED lighting technology is preferred within every large project for the modernization of lighting systems, so that the growth potential is maintained. To increase competitiveness it is necessary to improve the product quality up to a level that would allow for the extension of the warranty period and the reduction of replacement costs. Another market trend is the increase of revenues from activities relating to LED lighting unit production, for example through facility design and assembly services.

According to our assessments, the market of car charging stations will develop in a sustained way, more and more companies and local authorities having in the project the acquisition of stations, some acquisitions being stimulated by the financing programs mentioned above.

The climatic factor is also important, the hydrological and wind regime greatly influencing energy prices. In fact, the energy market is affected by several factors. Although Romania has a large installed capacity, it exists only theoretically, because in reality many groups are unavailable. There are periods in which Romania is an exporter of energy (generally in spring and autumn), but also periods in which it is a net importer of energy (in winter, in very cold periods) or in summer if there is a drought and the consumption necessary for air conditioning increases due to high temperatures). In both cases (energy export or import) the operation in conjunction with neighboring countries (and especially the coupling of DAM-Next Day Market) has led to a significant increase in energy prices, a trend that we will see in 2021.

Forecasts and projects for 2021

Large LED lighting systems such as those intended for municipalities for street lighting have also been promoted through supplier credit facilities. For 2021, the promotion and sale of lighting systems for individuals and legal entities will continue in parallel with the participation in all auctions published in SEAP. The sale through the supplier credit system will continue. Practicing this commercial policy is followed by a strategy of pursuing and securing cash for the development of the current activity. The use of existing credit lines will continue in the short term. At the same time, the company's commercial policy aims to keep under control the number of days established by the contract for the payment of receivables by customers and a strict credit management system.

For 2021, the main objective is the integration of the current applications developed by Electromagnetica in SmartCity platforms. This involves creating access capabilities in management platforms for the integration of LED lighting systems, the integration of traffic sensors, fog, rain, snow, air quality, temperature, humidity, wind, data exchange with the ENERGSys measurement and remote management system. as well as taking over the information about the charging stations from the ELMotion platform.

Regarding the sale of LED lighting systems, we appreciate an increase of at least 5% compared to last year, there being premises to increase the number of tenders of the contracting authorities and especially those from European funds. Among the most significant projects that will be carried out in 2021 is the lighting of stadiums in three important cities, all county seats.

At the same time, the development of a new data concentrator for ENERGSys is being evaluated, which will ensure a wider connectivity, which will be used mainly in Smart City type projects. For this, the new type of concentrator must, in addition to reading the electricity meters and the ON / OFF command function, be able to ensure the reading of sensors such as: air quality sensor, temperature sensor, humidity sensor, etc.

In the segment of electric vehicle charging stations, Electromagnetica will participate in 2021, both in the ELECTRIC UP program financed by the Ministry of Energy and in the program financed by the Environmental Fund Agency regarding the installation of 50 kW + 22 kW stations in municipalities and tourist resorts.

For 2021, the development of the 100KW Fast Charger charging station will continue and the tests with the alternative charging controller will continue. The 30 KW rectifier will be made in its own conception as an alternative to the imported solution. From a software point of view, functionalities such as car fleets, integrations with other systems (Plugshare), as well as integration with the Smart City platform will be implemented.

Regarding the prospects of 2021, we appreciate that in the field of CFR security systems there will be an increase compared to 2020, the company having orders covering at least the first semester.

The injection of plastics will also register a significant increase, with an additional amount of ongoing contracts plus two new contracts started in 2020.

11.2. Investments planned for 2021

In 2021, the investments will be oriented especially in the modernization of real estate assets in order to meet the requirements of the tenants and to ensure a higher degree of safety and comfort. This category also includes the modernization of two transformation stations as well as the project for a 4 MW power increase for the ELECTROMAGNETICA BUSINESS PARK platform. Other investments will be made in the acquisition of technological equipment necessary for the manufacturing process (plastics injection sectors, molds and LED lighting fixtures) as well as in the acquisition of vehicles for transport and lifting.

12. TANGIBLE ASSETS OF THE COMPANY

12.1. The production facilities of the Company are mainly located at its headquarters at 266-268 Calea Rahovei Street, district 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 production facilities of the Company include technologies such as plastic injection, manufacture of molds, technological assembling operations, etc. They are characterized by complexity, accuracy, flexibility, automation etc.

12.2. The spaces for rent are exclusively in Bucharest and Ilfov County, most of them at the headquarters in Calea Rahovei 266-268, where approx. 33,000 mp are already under renting contract.

12.3 The company also owns secondary offices, consisting of land and buildings in Bucharest, Ilfov County and Dambovită County. For two of the lands in Bucharest, feasibility studies for real estate development and subsequent rental are being carried out. Also, in order to diversify the portfolio of activities and for a better exploitation of the lands, feasibility studies were carried out for the lands with agricultural potential.

12.4. The Company is not involved in any litigation concerning the ownership of the land.

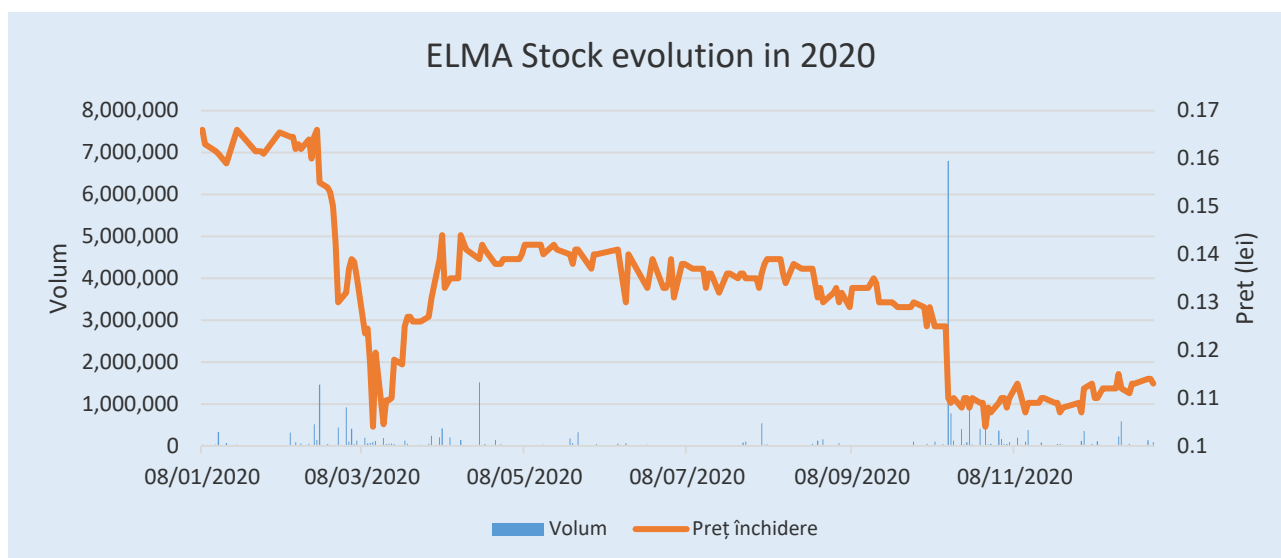
13. SECURITIES MARKET

13.1 Share price evolution:

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

Stock symbol: ELMA
Ordinary, nominative, dematerialized shares
Number of issued shares: 676,038,704
Nominal value: 0.1000 lei
Share capital: 67,603,870.40 lei
ISIN code ROELMAACNOR2
Lei code: 254900MYW7D8IGEFRG38

The ELMA shares are part of the stock exchange indexes BET Plus.



During 2020, shares representing 3.81% of the total number of shares were traded, accumulating 4.69% of the company's capital, at an average price of 0.1231 lei / share. The reference price ranged between a minimum of 0.1040 lei / share and a maximum of 0.1660 lei / share. The closing price at the end of 2020 was 0.113 lei / share, corresponding to a market capitalization of RON 76,392,373.55.

13.2. Dividends granted

Electromagnetica SA has always put in the first place the interest of the shareholders both in terms of development policy and in terms of granting dividends. When financial results allowed, Electromagnetica granted dividends to shareholders. In the last three years the situation is as follows: for 2018 - a dividend of 0.004 lei / share has been granted, for 2019 - a dividend of 0.004 lei / share has been granted, for 2020 - it will be decided in the 2021 General Meeting of Shareholders.

14. INDIVIDUAL FINANCIAL AND ACCOUNTING STATEMENT AS OF 31 DECEMBER 2018 (ALL AMOUNTS EXPRESSED IN LEI, UNLESS OTHERWISE SPECIFIED)

14.1. Financial Position

	Note	December 31, 2020	December 31, 2019
ASSETS			
Non-current assets			
Property, plant and equipment	4	275,703,825	277,545,153
Investment property	5	11,114,654	5,182,279
Intangible assets	6	291,521	466,487
Investments in related entities	8	841,408	3,967,606
Other long-term non-current assets	9	19,804,010	24,702,276
Assets related to the rights of use	7	2,085,114	148,0078
Total non-current assets		309,840,532	313,343,879
Current assets			
Inventories	10	13,402,675	15,411,327
Trade receivables	11	58,611,348	55,114,158
Cash and cash equivalents	13	20,108,460	21,711,183
Other current assets	12	1,882,350	1,939,785
Current tax assets	23	949,937	760,012
Total current assets		94,954,770	94,936,464
Total assets		404,795,302	408,280,342

	Note	December 31, 2020	December 31, 2019
EQUITY AND LIABILITIES			
Equity			
Share capital	14	67,603,870	67,603,870
Reserves and other equity	15	176,146,894	176,697,881
Retained earnings	16	91,473,196	91,301,725
Total equity attributable to company's shareholders		335,223,960	335,603,476
Non-current liabilities			
Trade payables and other liabilities	19	1,168,772	1,265,003
Investment subsidies	17	4,247,088	4,410,306
Deferred tax liabilities	23	16,735,345	17,333,187
Leasing debts	7	1,312,782	728,164
Total non-current liabilities		23,463,987	23,736,660
Current liabilities			
Trade payables and other liabilities	19	42,982,576	46,268,240
Investment subsidies	17	163,219	163,219
Provisions	18	2,156,891	1,806,142
Current income tax liabilities	23	-	-
Leasing debts	7	804,669	702,605
Total current liabilities		46,107,356	48,940,206
Total liabilities		69,571,343	72,676,866
Total equity and liabilities		404,795,302	408,280,342

The debts decreased by approx. 5% due to the decrease of commercial debts

14.2. The individual statement of profit and loss is as follows:

Revenues	20	283,151,730	256,169,132
Investment income	20	932,082	1,018,418
Other net income and expenses	20	10,794,514	6,802,816
Changes in inventories of finished goods and work in progress	20	7,934,317	13,389,266
Own work capitalized	20	1,481,686	772,403
Raw materials and consumables used	21	(219,528,624)	(188,946,222)
Employee-related expenses	24	(30,490,094)	(36,494,887)
Expenses related to depreciation and impairment		(10,199,234)	(10,183,159)
Other expenses	21	(37,943,201)	(36,706,154)
Financial expenses	22	(3,947,166)	(840,410)
Profit before tax		2,186,009	4,981,203
Income tax	23	138,292	(492,516)
Profit of the period		2,324,301	4,488,687

The profit for 2020 was mainly due to the good evolution of the energy supply activity (especially the trading segment), of the significant increase of the orders for plastics injection as well as a slight increase of the revenues from the rental activity.

14.3. Cash–Flow	Year 2020	Year 2019
Net cash used in operating activities	1,464,125	(4,366,829)
Net cash used in investments	138,063	256,476
Net cash used in financing activities	(3,204,911)	(3,340,778)
Net (decrease)/ increase of cash and cash equivalents	(1,602,723)	(7,451,132)
Cash and cash equivalents at the beginning of the period	21,711,183	29,162,314
Cash and cash equivalents at the end of the period	20,108,460	21,711,183

15. IMPORTANT EVENTS OCCURRED AFTER THE CLOSING OF THE FINANCIAL YEAR

There are no events that have significantly influenced the company's activity, which appeared after the end of the financial year and until the preparation of this report.

16. STATEMENT OF CORPORATE GOVERNANCE

16.1 The relevant corporate governance code

The Company management considers that a high level of transparency as well as a good protection of investors are essential for its long-term support by its shareholders development in the long run and maximize the value of the shares.

The strict application of the relevant legislation (Law no. 31/1990 on trading companies, republished; Law no. 297/2004 on capital market, as further amended and supplemented; Law no. 24/2017 on issuers of financial instruments and market operations; Regulation no. 6/2009 on shareholders' rights; Regulation no. 1/2006 on issuers) as well as of the company's Articles of incorporation is a pre-requisite for compliance with the corporate governance requirements established at world level.

The Board of Directors decided to voluntarily apply the BVB Corporate Governance Code, except that, according to the specificity of the Company, some of the provisions thereof will be only partially. The current stage of compliance with the BVB Corporate Governance Code, the reasons for partial compliance and the measures adopted to achieve the corporate governance goals are specified in the Annex to the Statement of Corporate Governance, published with this report.

16.2. General meetings of shareholders and rights of shareholders

The rights of the shareholders and the procedure for participation in the general meetings of shareholders are described in the notice convocation of the general meeting and were summarized in a regulation available in the Corporate Governance section of the Company's website <https://www.electromagnetica.ro/investitori-info/>

16.3. Management system

The company is currently managed under the one-tier system, by a Board of Directors composed of 7 members.

16.4. Corporate governance structures

The main administration, management and supervisory structures of the Company are the Board of Directors, the Managers, the Audit Committee, the External Auditor and the Internal Auditor. The professional qualification and management experience of the members of the Board enables them to assess on a regular basis the aspects related to the review of the managers' activity, appointment and remuneration or internal audit.

In order to ensure compliance with the Audit Law no. 162/2017 and EU Regulation no. 537/2014 regarding the audit, the Board of Directors decided in its meeting of 7 March 2018 to establish an Audit Committee composed of 3 members. Two of the non-executive directors were initially nominated to be members of the Audit Committee, Mrs Elena Calitoiu and Mrs Cristina Hodea, while Mrs Ileana Roman was nominated subsequently (in accordance with the Resolution of the Ordinary General Meeting of Shareholders of April 2018).

16.4.1. Board of Directors and managers

The members of the Board of Directors were elected by majority vote in the ordinary meeting of shareholders on 19 September 2019, the candidates being proposed by the shareholders. The composition of the Board of Directors reflects faithfully the holdings in capital (more than 70% of the capital is represented in the BoD). No director stood as a candidate as an independent person. There are no family relationship between the directors or members of the executive management and third parties based on which they were elected or appointed.

Name	Position	Term of office	Profession, place of work	Individual ELMA share ownership	Positions held in other listed companies
Scheusan Eugen	BoD Chairman	18 oct 2019 – 18 oct 2023	Engineer, Electromagnetica	0.2428%	-
Stancu Traian	BoD Member	18 oct 2019 – 18 oct 2023	Engineer, Electromagnetica	0.0462%	-
Stancu Ioan	BoD Member	18 oct 2019 – 18 oct 2023	Technician, Electromagnetica	0.0027%	-
Macovei Octavian	BoD Member	18 oct 2019 – 18 oct 2023	Engineer, Electromagnetica	0%	-
Calitoiu Elena	BoD Member	18 oct 2019 – 18 oct 2023	Engineer, SIF Oltenia	0%	SIF Oltenia – head of Directorate for Placements, Transactions and Net Asset Value Calculation; Antibiotice Iasi - director
Sichigea Elena	BoD Member	18 oct 2019 – 18 oct 2023	Economist, SIF Oltenia	0%	Sif Oltenia – head of business department; Mercur SA Craiova - director
Hodea Cristina Ioana Rodica	BoD Member	18 oct 2019 – 18 oct 2023	CFA, MBA, Engineer, auditor	0%	Electroaparataj SA – chair of the Audit Committee

The diversity of the members of the Board enables the efficient use of supplementary skills and professional experience and knowledge in various fields. Most of the members of the Board are non-executive managers, which ensure the proper balance of authority. In 2020, the Board of Directors met every month in the presence of all the Board members, whether in person or by using the vote by correspondence. The level of the compensation for the Board members is established by decision of the general meeting of shareholders.

16.4.2. Managers

According to the provisions of the Company's Articles of Incorporation, the Chairman of the Board of Directors also exercises the function of Managing Director and duly represents the Company. The Board of Directors can delegate certain powers to one or more managers, based on mandate agreements, and establish the tasks of each manager who is subject to such delegation. In 2020, the executive management was carried out by 4 managers, as follows:

No.	Surname/ Name	Capacity	Individual share ownership as of 31 Dec 2019	Other positions held in listed companies
1	Scheusan Eugen	Managing Director	0.2428%	-
2	Macovei Octavian	Technical Manager	0%	-
3	Florea Cristina	Chief Financial Officer	0%	-
4	Stoica Mihail	Commercial Manager	0%	-

The remunerations of the directors are established by the decision of the Board of Directors. The annual gross remuneration and other advantages, including the one approved by the SGA through BVC due to the management, may not exceed 5% of the value of the own capital, established by the annual balance sheet.

In order to comply with the legal obligations introduced by Law no. 158/2020 amending Law no. 24/2017 regarding the issuers of financial instruments and market operations, the Remuneration Policy of the administrators, executive directors and members of the Audit Committee was elaborated, which will be submitted to the SGA for approval.

16.4.3. Independent External Auditor

Following the Ordinary General Meeting of Shareholders of April 2020, it was decided to contract with Deloitte Audit SRL the auditing of the financial statements for the financial year 2020. The audit company is represented by Mr. Zeno Caprariu – Audit Partner.

The identification data of **Deloitte Audit SRL** are the following:

Tax ID: 7756924

Trade Register no.: 40/6775/1995

License issued by the Chamber of Financial Auditors of Romania: no. 25/25.06.2001

Company head office: Bucharest, sector 1, Calea Grivitei 82-98, "The Mark" Building

Tel 021/222.16.61

Fax 021/319.51.00

16.4.4. Internal audit

The Board of Directors works closely with the Audit Committee, the internal auditor and the financial control service on issues relating to financial reporting, internal audit and risk management. The managerial experience and professional training of the BoD members allows them to evaluate the effectiveness of the internal audit system.

The company has in place an internal control/management review system designed and implemented to enable the executive management and the Board of Directors to provide reasonable assurance that the company funds allocated to the achievement of general and specific objectives were used lawfully, regularly, efficiently, effectively and economically. The internal control / management review system comprises both self-control and subsequent control mechanisms applied by the Budgetary Surveillance and Execution Office, the internal auditor and the Audit Committee; the implementation of the measures aimed at increasing its efficiency is also based on the assessment of risks.

The company applied the internal accounting and financial review to ensure the accounting management and the surveillance of the Company activity from the financial perspective.

The internal audit activity was focused on:

- ensuring compliance with applicable legislation;
- implementing the decisions made by company management;
- the smooth conduct of the company internal activity;
- the reliability of financial information;
- the efficient use of resources;
- risk prevention and control.

The control activity was carried out together with the Internal Auditor, taking into account his recommendations and remarks.

16.4.5. Audit Committee

In accordance with the provisions of the audit law 162/2017 and the EU regulation 537/2014 regarding the audit and with the BVB recommendations for the listed companies, the Board of Directors decided in 2018 to set up an Audit Committee. It is composed of three members: two non-executive directors, Mrs. Elena Calitoiu and Mrs. Cristina Hodea as well as Mrs. Ileana Roman. It is an important structure within the corporate governance, ensuring in many cases the interface with the financial auditor and having an important role in the preparation of the annual audit reports and the good functioning of the company.

The audit committee establishes the responsibilities regarding: the quality and integrity of the company's financial statements; compliance by the company with legal and regulatory requirements; the company's global risk management process; performing the internal audit function of the company;
It also approves the audit program and coordinates the activity of the internal auditor which is an outsourced service.

During 2020, 5 audit missions were performed, as follows:

- audit of the electricity supply activity
- the audit of the patrimony inventory activity
- checking the implementation of the recommendations made by the internal auditor to improve the audited activities in 2019
- auditing the IT activity
- auditing the human resources activity

As a result of the missions completed in 2020, recommendations were developed to improve internal managerial control, mainly targeting:

- compliance with applicable laws, regulations / procedures and contracts;
- effectiveness and efficiency of operations;
- management of funds and assets;

16.5. Capital structure and major shareholders

The company did not issue shares that grant special controlling rights or other types of rights. During 2019 there were no suspensions of voting rights or restrictions related to the ownership of shares. Some of the members of the executive management are also members of the Electromagnetica Association of Shareholding Employees (PAS); this association is not controlled by a single person. At the date of 31.12.2020, the Company had 6,228 shareholders (by 0.68% more than in 2019). According to the Central Securities Depository, the capital structure as at 31 December 2019 was the following:

Shareholder	Ownership	Number of shares
SIF Oltenia SA	26.1402%	176,717,869
PAS Electromagnetica	25,3069%	171,084,439
Natural persons	37.7467%	255,182,302
Legal persons	10.8062%	73,054,094
TOTAL	100%	676,038,704

16.6. Conflicts of interests management, transactions with stakeholders and treatment of confidential information

The directors involved in potential conflicts of interests must inform the Board and abstain from the debates and voting on those matters. Transactions with stakeholders are concluded in fair conditions and are negotiated by the management members who are not related to the stakeholders concerned and are reported to ASF and BVB if necessary. The external auditor must signal and analyze accordingly these transactions in the audit report. The company will prepare and update the list of persons that are deemed to have access to insider information. Annually, the directors and managers of the company and the other affiliated parties make solemn declarations that they are not in a situation of conflict of interests and do not carry out any competing activities.

16.7. Own shares repurchase

There is no approved program for the repurchase of share or price stabilization and there is no scheme for the granting of shares to employees or management members.

16.8. Reporting share transactions by directors and other stakeholders

The company does not apply additional rules, other than those provided for by legislation, to the transactions conducted with the shares of the Company by its directors or other stakeholders. In 2020, no such transactions were notified to ASF.

16.9. Changes of the Articles of Incorporation

The Articles of Incorporation were updated on April 20th, 2020 by amending point 3.3 of article 3 by incorporating a new working point, the land from Moara Vlasiei where agricultural activity takes place.

16.10. Disclosure of corporate information

Every year, the Company establishes and publishes a financial reporting calendar. The Company regularly and permanently prepares and discloses information that is relevant for investment decisions, which information is published both on the Company website and on the BVB website („ELMA” symbol). The staff dedicated to this activity is trained on a continuous basis, educated and instructed in issues related to the company's relation with its shareholders and the corporate governance principles. In 2019, the information was disclosed in Romanian and in English for those categories of documents envisaged by the applicable legislation. Two meetings with investors and analysts were organized on 12.04.2019 and 14.08.2020. The Company encourages communication with shareholders the **Investors** section on its web page available at <https://www.electromagnetica.ro/investitori-info/>; for further information, investors can either call to 021.404.21.31, use the fax no. 021.404.21.95 or the e-mail address: juridic@electromagnetica.ro.

16.11 ARIR activity

ELECTROMAGNETICA SA founding member of ARIR - Association for Investor Relations on the Romanian Stock Exchange, actively participated in meetings and conferences organized by this association (including meetings with ASF), thereby seeking to improve communication with investors and be aware of the legislative changes expected in the Capital Market (European regulations and draft laws in Romania). In the VEKTOR methodology, which quantifies the way of communication with investors, created by ARIR together with BVB, our company managed to increase its score of almost the previous year almost 3 times. ARIR includes, among others, Banca Transilvania, Hidroelectrica, Nuclearelectrica, Transelectrica, ALRO, BVB, Franklin Templeton Management.

Board of Directors Chairman/Managing Director
Eugen Scheusan

Chief Financial Officer
Cristina Florea

Annex to the Statement of Corporate Governance

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.1. All companies must have an internal regulation of the Board to include the key terms/responsibilities of the Board and the Company's key management positions and to enact, among others, the General Principles under Section A.		Partially compliant	The Company has not adopted an operating regulation for the BoD, given that the articles of incorporation clearly differentiate the powers and attributions of BoD from those of GMS and those of the managers. The BoD's responsibilities, key positions and means of operation are sufficiently detailed in the articles of incorporation and comply with the general principles of CGC of BVB under section A regarding responsibilities. The results so far indicate that this means of operation is functional.
A.2. Provisions for the management of conflicts of interest must be included in the Board's regulation. In any case, the members of the Board must notify the Board with regard to any conflicts of interest which have occurred or may occur and abstain from attending talks (even by absence, except when the absence prevents the formation of the quorum) and from voting to adopt a resolution on the matter giving rise to the respective conflict of interest.		Partially compliant	The Company has not adopted an operation regulation for BoD that contains provisions for the management of conflicts of interest. However, the Board of Directors takes measures to comply with the applicable legal provisions, and the Company's and subsidiaries' directors and managers regularly give sworn statements regarding non-competition and conflicts of interest. The adopted measures have proven to be effective for managing conflicts of interest.
A.3. The Board of Directors or the Board of Surveillance must be comprised of at least five members.	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
<p>A.4. The majority of the members of the Board of Directors must not have an executive position. At least one member of the Board of Directors or the Board of Surveillance must be independent, in the case of companies in the Standard Category. In the case of companies in the Premium Category, at least two non-executive members of the Board of Directors or the Board of Surveillance must be independent. Each independent member of the Board of Directors or Board of Surveillance, as the case may be, must file a statement at the time of their nomination for election or re-election, as well as when any change of status occurs, thereby indicating the elements based on which they consider themselves independent in terms of character and judgment and according to the following criteria:</p>		Partially compliant	Of the 7 BoD members, 2 are executive directors and 5 are non-executive, but none of them declared themselves at the beginning of their mandate as being independent directors according to the criteria stated by CGC of BVB under items A.4.1- A.4.9
<p>A.4.1. he/she is not a Managing Director/executive manager of the Company or of a company under the control thereof and has not held such office in the past five (5) years;</p>	Compliant		
<p>A.4.2. he/she is not an employee of the Company or of a company under the control thereof and has not held such office in the past five (5) years;</p>	Compliant		
<p>A.4.3. he/she does not and has not received additional remuneration or other advantages from the Company or a company under the control thereof, other than those pertaining to his/her capacity as non-executive director;</p>	Compliant		
<p>A.4.4. he/she is not or was not an employee, or does not or did not have over the previous year a contractual relationship with a significant shareholder of the Company, such shareholder controlling more than 10% of the voting rights, or with a company controlled by the latter;</p>	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.4.5. does not and did not have over the previous year any business or professional relationship with the Company or with a company controlled by it, either directly or as client, partner, shareholder, member of the Board/Director, Managing Director /executive manager or employee of a company if, due to its substantial nature, such relationship may affect his/her objectivity;	Compliant		
A.4.6. he/she is not and was not over the past three years an external or internal auditor or partner or remunerated associate to the current external financial auditor or to the internal auditor of the Company or of a company controlled by it;	Compliant		
A.4.7. he/she is not a Managing Director/executive manager of another company where another Managing Director/executive manager of the Company is a non-executive director;	Compliant		
A.4.8. he/she was not a non-executive director of the Company for a period longer than twelve years;	Compliant		
A.4.9. he/she does not have family connections to a person who is in the situations mentioned under items A.4.1. and A.4.4.	Compliant		
A.5. Other relatively permanent professional commitments and obligations of a Board member, including executive and non-executive positions on the Board of not-for-profit companies and institutions must be disclosed to shareholders and potential investors prior to nomination and during their mandate.	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
A.6. Any member of the Board must present to the Board information on a relationship to a shareholder holding directly or indirectly shares representing more than 5% of all voting rights. This obligation refers to any kind of relationship that may affect the position of the member with regard to matters decided by the Board.	Compliant		
A.7. The Company must appoint a secretary of the Board, in charge of supporting the Board's activity.	Compliant		
A.8. The Statement on Corporate Governance will inform as to whether there has been an evaluation of the Board under the leadership of the Chairman or of the nomination committee and, if appropriate, it will summarize the key measures and changes derived from such evaluation. The Company must have a policy/guide on Board evaluation, containing the purpose, criteria and frequency of the evaluation process.		Partially compliant	The Board of Directors has not adopted a policy/guide on Board evaluation. On an annual basis, within the general balance meeting, the ordinary general meeting of the shareholders is required to decide on granting incentives depending on the achievement of the performance indices and in accordance to the provisions of the articles of incorporation.
A.9. The Statement on Corporate Governance must contain information regarding the number of meetings of the Board and committees throughout the past year, the attendance of directors (personally and in absentia) and a report of the Board and the committees concerning their activities.	Compliant		
A.10. The Statement on Corporate Governance must contain information regarding the exact number of independent members on the Board of Directors or on the Surveillance Board.	Compliant		
A.11. The Board of companies in the Premium Category must establish a nomination committee comprised of non-executive members, which will lead the procedure for nomination of new members on the Board and will make recommendations to the Board. The majority of the members of the nomination committee must be independent.		Partially compliant	A nomination committee composed of non-executive directors who are, as a majority, independent directors, could not be established The Board of Directors is, as a whole, the one who nominated interim members and makes recommendations to the ordinary general meeting of the shareholders on the election of new BoD members.

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
B.1. The Board must establish an audit committee in which at least one member must be an independent non-executive director. The majority of the members, including the chairman, must have proven they hold relevant adequate qualification for the attributes and responsibilities of the committee. At least one member of the audit committee must have proven and adequate audit or accounting experience. In the case of companies in the Premium Category, the audit committee must be comprised of at least three members, and the majority of the audit committee members must be independent.		Partially compliant	The Audit Committee is composed of three members, of whom two are non-executive directors, and the third independent person, Mrs. Ileana Roman, is a chartered accountant.
B.2. The chairman of the audit committee must be an independent non-executive member.		Partially compliant	The head of the Audit Committee it is a non-exective director.
B.3. Within its responsibilities, the audit committee must conduct an annual evaluation of the internal control system.	Compliant		
B.4. The evaluation must take into account the effectiveness and span of the internal audit function, the adequacy of the risk management and internal control reports presented to the Board's audit committee, the timeliness and effectiveness employed by the executive management in solving deficiencies or weaknesses identified pursuant to the internal control and presenting relevant reports to the attention of the Board.	Compliant		
B.5. The audit committee must evaluate conflicts of interest regarding the transactions of the Company and its subsidiaries with affiliated parties.	Compliant		
B.6. The audit committee must evaluate the effectiveness of the internal control system and the risk management system.	Compliant		
B.7. The audit committee must monitor the enactment of generally accepted legal standards and internal audit standards. The audit committee must receive and evaluate the reports of the internal audit team.	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
B.8. Anytime the Code mentions reports or analyses initiated by the Audit Committee, these must be followed by periodical (at least annually) or immediate reports which must be subsequently forwarded to the Board.	Compliant		
B.9. No shareholder may receive preferential treatment compared to other shareholders with regard to transactions and agreements concluded by the Company with the shareholders and their affiliates.	Compliant		
B.10. The Board must adopt a policy by which to ensure that any company transaction with any of the companies with which it has close ties, the value of which is equal to or greater than 5% of the Company's net assets (according to the latest financial report) is approved by the Board following a mandatory opinion of the Board's audit committee, accurately disclosed to shareholders and potential investors, to the extent that such transactions fall into the category of events subject to reporting requirements.	Compliant		
B.11. Internal audits must be conducted by a structurally separate division (the internal audit department) within the Company by hiring an independent third party.	Compliant		
B.12. In order to ensure the fulfillment of the main functions of the internal audit department, it must functionally report to the Board by means of the audit committee. For administrative purposes and within the management's obligations to monitor and decrease risks, it must report directly to the Managing Director.	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
<p>C.1. The Company must publish on its website the remuneration policy and include in the annual report a statement on the implementation of the remuneration policy during the annual period subject to analysis. The remuneration policy must be expressed so that it allows the shareholders to understand the principles and arguments underlying the remuneration of the members of the Board and of the Managing Director, as well as the Management members in the dual system. It must describe the method of leading the process and of making decisions regarding remuneration, detail the elements of the remuneration of the executive management (such as salaries, annual bonuses, long-term incentives related to the value of shares, benefits in kind, pensions and others) and describe the purpose, principles and presumptions underlying each element (including the general performance criteria related to any form of variable remuneration). Moreover, the remuneration policy must indicate the duration of the executive manager's contract and the notice period mentioned in the contract, as well as the potential compensation for wrongful dismissal. The report regarding remuneration must present the implementation of the remuneration policy for persons identified in the remuneration policy during the annual period subject to analysis. Any essential change having occurred in the remuneration policy must be promptly published on the Company's website.</p>		Partially compliant	The Company has not adopted or published on its website a remuneration policy but the notes to the annual financial statements contain information on the remuneration of directors and managers for the analyzed period. The Company's articles of incorporation provides for general limits for profit participation on the part of employees and directors, or directors and managers, taking into consideration the achieved profit criterion, that is, depending on exceeding the budgeted profit.

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
<p>D.1. The Company must organize an Investor Relations service – thereby indicating to the public the person/persons in charge or the organizational unit. Aside from the information required by legal provisions, the Company must include on its website a section dedicated to Investor Relations, in Romanian and English, containing all relevant information that may be of interest to investors, including:</p> <p>D.1.1. Main corporate regulations: articles of incorporation, procedures concerning general meetings of shareholders;</p> <p>D.1.2. Professional resumes of the members of the Company’s management bodies, other professional commitments of the Board members, including executive and non-executive positions in boards of directors in companies or not-for-profit institutions;</p> <p>D.1.3. Current reports and periodical (quarterly, semester and annual) reports – at least those set forth under item D.8 – including current reports containing detailed information regarding non-compliance with this Code;</p> <p>D.1.4. Information regarding general meetings of shareholders: agenda and information materials; procedure for election of Board members; arguments backing candidate proposals for Board election, along with their professional resumes; shareholders’ questions with regard to items on the agenda and company’s answers, including resolutions adopted;</p> <p>D.1.5. Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading up to the acquirement or limitation of a shareholder’s rights, including deadlines and principles applied to such operations. The respective information will be published soon enough so as to allow investors to make investment decisions;</p> <p>D.1.6. The name and contact details of a person who is able to provide relevant information upon request;</p> <p>D.1.7. Company’s presentations (for instance, presentations for investors, presentations on quarterly results, etc.), financial statements (quarterly, semester, annual), audit reports and annual reports.</p>	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
D.2. The Company will have a policy on the annual distribution of dividends or other benefits to the shareholders, proposed by the Managing Director or by the Management and adopted by the Board, in the form of a set of guidelines which the Company intends to follow with regard to net profit distribution. The principles of the annual policy of distribution to shareholders will be published on the Company's website.		Partially compliant	The Company has not adopted and has not published on its own website a policy on the annual distribution of dividends. However, through the resolutions adopted in recent years, the Company has proven consistency and predictability in the allotment of dividends when the Company's profit allowed for it.
D.3. The Company will adopt a policy on forecasts, regardless of whether they are made public or not. The forecasts refer to quantified conclusions of surveys aiming at establishing the global impact of a number of factors concerning a future period (the so-called hypotheses): by its nature, this projection is highly uncertain, and the actual results may differ significantly from the initially presented forecasts. The policy on forecasts will establish the frequency, the envisioned period and the content of the forecasts. If published, the forecasts may be included only in the annual, semester or quarterly reports. The policy on forecasts will be published on the Company's website.		Partially compliant	The Company has not adopted a policy on forecasts to establish the frequency, period and content thereof, whether to be made public or not. Forecasts with a certain level of uncertainty are included each time in the annual reports of directors.
D.4. The rules of the general meetings of shareholders must not limit the shareholders' participation in the general meetings and the exercise of their rights. Amendments to the rules will come into force, at the earliest, starting from the following meeting of shareholders.	Compliant		
D.5. The external auditors will be present in the general meeting of shareholders when their reports are presented within such meetings.	Compliant		
D.6. The Board will present to the annual general meeting of shareholder a short assessment of the internal control systems and significant risk management systems, as well as opinions on certain matters subject to the decision of the general meeting.	Compliant		

The provisions of BVB Corporate Governance Code	The Company is compliant	The Company is non-compliant or partially compliant	Reason for non-compliance / measures taken / objective achievement
D.7. Any financial specialist, consultant, expert or analyst may attend the meeting of the shareholders based on a prior invitation by the Board. Accredited journalists may also attend the general meeting of shareholders, unless the Chairman of the Board decides otherwise.		Non-compliant	The Company's bylaws do not provide for the participation in the GMS, as invited parties, of analysts, accredited journalists, experts, consultants, specialists. On a regular basis, aside from shareholders, the GMS is attended by directors, managers, auditors and other guests only when their presence is justified by the agendas containing reports or analyses drawn up by them.
D.8. The quarterly and semester financial reports will include information both in Romanian and in English with regard to the key factors influencing changes in the level of sales, operational profit, net profit and other relevant financial indices, both from one quarter to another, and from one year to another.		Partially compliant	The requirements are met, noting that the information are presented only compared to the similar period of the previous year, not from one quarter to another.
D.9. A company will organize at least two meetings/teleconferences with the analysis and investors every year. The information presented on such occasions will be published under the section "investor relations" on the Company's website on the date of the meetings/teleconferences.	Compliant		
D.10. If a company supports various forms of artistic and cultural expression, sporting activities, educational or scientific activities and considers that the impact thereof on the Company's innovative nature and competitiveness are part of its development mission and strategy, it will publish the policy on its activity in such area.		Partially compliant	The Company has not adopted and has not published a policy on supporting forms of artistic and cultural expression, sporting activities, educational or scientific activities. However, the numerous actions carried out in the past for supporting the above-mentioned areas were accompanied by press releases and promoted on the Company's website.