ELECTROMAGNETICA SA

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN COMPLIANCE WITH

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

FOR THE 6-MONTH PERIOD ENDED ON 30 JUNE 2019

UNAUDITED

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

	Note	6-month period ended 30 June 2019	6-month period ended 30 June 2018
Revenues	**18**	**109,382,152**	**152,479,963**
Investment income	**18**	175,284	36,923
Other net revenues and expenses	**18**	3,590,194	2,491,045
Changes in inventories of finished goods and work in progress	**18**	10,565,235	10,454,887
Own work capitalized	**18**	380,417	277,016
Raw material and consumables used	**19**	(73,916,931)	(114,545,200)
Employee - related to expenses	**19**	(19,268,272)	(16,508,209)
Expenses related to depreciation and impairment	**19**	(5,292,150)	(5,062,464)
Other expenses	**19**	(16,420,676)	(15,941,799)
Financial costs	**20**	(391,149)	(483,415)
Profit before tax		**8,804,104**	**13,198,747**
Income tax	**21**	(1,066,192)	(2,220,488)
Profit for the period		**7,737,912**	**10,978,259**
Distributable to parent company		7,723,140	10,964,865
Distributable to non-controlling interests		14,772	13,394
Other components of comprehensive income			
of which:			
Other comprehensive income items that cannot be reclassified in the profit and loss account, of which:			
- Surplus from tangible assets revaluation		-	
- Deferred tax recognized in equity		**-**	180,868
Comprehensive income for the period		**7,737,912**	**11,159,127**

These consolidated financial statements were approved for disclosure by the management as at August 12, 2019:

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

ELECTROMAGNETICA SA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 JUNE 2019
(all the amounts are expressed in RON, unless otherwise specified)

	Note	30 June 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	**4**	290,835,475	292,303,086
Investment property	**5**	8,433,921	8,433,920
Intangible assets	**6**	506,237	704,441
Other long term non-current assets	**7**	19,870,320	20,519,074
Total non-current assets		**319,645,953**	**321,960,521**
Current assets			
Inventories	**8**	19,939,031	17,785,908
Trade receivables	**9**	49,224,274	41,456,253
Cash and cash equivalents	**11**	32,340,420	33,784,250
Other current assets	**10**	4,059,310	2,952,725
Total current assets		**105,563,035**	**95,979,136**
Total assets		**425,208,989**	**417,939,657**
EQUITY AND LIABILITIES			
Equity			
Share capital	**12**	67,603,870	67,603,870
Reserves and other equity	**13**	181,711,959	180,987,126
Retained earnings	**14**	100,864,532	96,786,264
Total equity attributable to company shareholders		**350,180,361**	**345,377,260**
Non-controlling interests		241,836	250,450
Total equity		**350,422,197**	**345,627,710**
Non-current liabilities			
Trade payables and other liabilities	**17**	2,608,318	1,311,019
Investment subsidies	**15**	4,491,916	4,573,525
Deferred tax liabilities	**21**	18,299,849	18,740,684
Total non-current liabilities		**25,400,082**	**24,625,228**
Current liabilities			
Trade payables and other liabilities	**17**	46,008,395	43,541,081
Investment subsidies	**15**	163,219	163,219
Provisions	**16**	2,327,922	3,938,356
Current income tax liability		887,173	44,062
Total current liabilities		**49,386,709**	**47,686,719**
Total liabilities		**74,786,792**	**72,311,947**
Total equity and liabilities		**425,208,989**	**417,939,657**

These consolidated financial statements were approved for disclosure by the management as at August 12, 2019:

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

ELECTROMAGNETICA SA
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 6-MONTH PERIOD ENDED ON 30 JUNE 2019
(all the amounts are expressed in RON, unless otherwise specified)

	Note	6-month period ended 30 June 2019	6-month period ended 30 June 2018
Cash flows from operating activities			
Cash receipts from customers		117,318,397	165,305,944
Payments to suppliers		(83,264,336)	(123,835,013)
Payments to employees		(20,226,687)	(16,731,904)
Other operating activities		(11,430,377)	(15,256,436)
Cash generated by/(used in) operating activities		**2,396,997**	**9,482,591**
Interest paid		(4,726)	(15,669)
Income tax paid		(887,101)	(2,253,185)
Net cash used in operating activities		**1,505,170**	**7,213,737**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(379,143)	(1,055,912)
Interest received		304,774	46,055
Dividends received		-	-
Net cash used in investing activities		**(74,369)**	**(1,009,857)**
Cash flows from financing activities			
Proceeds from loans		4,642,579	37,930,156
Cash repayments of amounts borrowed		(4,642,579)	(37,930,156)
Paid leasing		(604,594)	
Dividends paid		(2,271,961)	-
Net cash used in financing activities		**(2,876,555)**	**-**
Net (decrease) / increase of cash and cash equivalents		**(1,445,755)**	**6,203,879**
Cash and cash equivalents at beginning of period	**11**	**33,786,175**	**20,570,751**
Cash and cash equivalents at end of period	**11**	**32,340,420**	**26,774,630**

These consolidated financial statements were approved for disclosure by the management as at August 12, 2019:

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

ELECTROMAGNETICA SA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 6-MONTH PERIOD ENDED ON 30 JUNE 2019
(all the amounts are expressed in RON, unless otherwise specified)

	Share capital	Retained earnings	Revaluation reserve tangible assets	Other equity items	Legal reserve	Non-controlling interests	Total equity
Balance at 01 January 2019	**67,603,870**	**96,786,264**	**99,575,840**	**61,957,912**	**19,453,374**	**250,450**	**345,627,709**
Comprehensive income for the period							
Profit of the period	-	7,737,912	-	-	-	(8,614)	7,729,298
Other comprehensive income items							
Setup of legal reserve	-	-	-	(500,017)	500,017	-	-
Transfer of revaluation reserve to retained earnings following the depreciation of revaluated tangible assets or written off assets		1,398,841	(1,398,841)	-	-	-	-
Transfer of net profit to reserves	-	(2,208,403)	-	2,208,403	-	-	-
Total comprehensive income for the period	**-**	**6,928,350**	**(1,398,841)**	**1,708,386**	**500,017**	**(8,614)**	**7,729,298**
Transactions with shareholders recognized directly in equity							
Distributed dividends		(2,704,155)	-	-	-	-	(2,704,155)
Other equity items	-	(145,927)	(215,726)	130,997	-	-	(230,656)
Balance at 30 June 2019	**67,603,870**	**100,864,532**	**97,961,273**	**63,797,295**	**19,953,391**	**241,836**	**350,422,196**

These consolidated financial statements were approved for disclosure by the management as at August 12, 2019 :

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

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

	Share capital	Retained earnings	Revaluation reserve tangible assets	Other equity items	Legal reserve	Non-controlling interests	Total equity
Balance at 1 January 2018	**67,603,870**	**74,220,398**	**86,843,127**	**62,207,716**	**34,422,531**	**254,989**	**325,552,631**
Comprehensive income for the period							
Profit of the period	-	10,964,865	-	-	-	13,394	10,978,259
Setup of legal reserves				(649,027)	649,027	-	-
Other components of comprehensive income							
Transfer of reserve from revaluation to the carried forward result following amortization	-	1,239,925	(1,239,925)	-	-	-	-
Resumption of deferred tax related to revaluation for assets removed from management	-	-	-	180,868	-	-	180,868
Transfer of the retained earnings to reserves	-	15,555,054	-	(184,722)	(15,370,332)	-	-
Total comprehensive income for the period	**-**	**27,759,844**	**(1,239,925)**	**(652,881)**	**(14,721,305)**	**13,394**	**11,159,127**
Transactions with shareholders recognized directly in equity							
Other items	-	160,407	(142,675)	-	(211)	-	17,521
Balance at 30 June 2018	**67,603,870**	**102,140,649**	**85,460,527**	**61,554,835**	**19,701,015**	**268,383**	**336,729,279**

The legal reserve decreased due to the coverage of the 15,370,332 lei loss recorded by the parent company in 2017, from the adjustment of the legal reserve calculated in compliance with IAS 29 with the implementation of IFRS (Note 13).

These consolidated financial statements were approved for disclosure by the management as at August 12, 2019:

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

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

1. GENERAL-INFORMATION ABOUT THE GROUP

Electromagnetica SA – parent company – is a Romanian legal entity incorporated under the legal form of joint stock company for an unlimited duration, organised and operating under its articles of incorporation, Law no. 31/1991 republished in 2004 and amended by Law no. 441/2006, Government Emergency Ordinance (GEO) no. 82/2007 and GEO no. 52/2008, and Law no. 297/2004 on the capital market. The registered office of the Group is in Bucharest, 266-268 Calea Rahovei Street, district 5, Bucharest, Romania, postal code 64021, telephone 021.404.21.31, 021.404.21.02, fax 021.404.21.95, website www.electromagnetica.ro, Tax ID Code RO 414118, registration number with the Trade Register J40/19/1991. The Group share capital is 67,603,870.40 lei divided into 676,038,704 ordinary shares, registered and dematerialised, recorded in electronic account in the shareholder register held by Depozitarul Central SA. According to the group's articles of incorporation, its main object of activity is the manufacture of instruments and appliances for measuring, testing and navigation (NACE code 2651).

SC Electromagnetica Goldstar SRL – operated as a Romanian-Korean joint venture until 2011, when SC Electromagnetica took over under a share assignment the entire equity held by the Korean partners and become the sole shareholder of this company. It is a limited liability company with registered office in Bucharest, 266-268 Calea Rahovei Street, district 5, registration number with the Trade Register J40/12829/1991, Tax ID 400570; its main object of activity is the manufacture of communication equipment (NACE code 2630). The company also carries out service and warranty activities for communication equipment and real estate renting activities.

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

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

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

SC Procetel SA is a joint stock company with registered office in Bucharest, 266-268 Calea Rahovei Street, registration number with the Trade Register J40/10437/1991, Tax ID 406212, tel.: 031.700.26.14, fax: 031.700.26.16. SC Procetel SA is an unlisted joint stock company (its shares are not traded on the stock exchange) and its main object of activity is other research and experimental development on natural sciences and engineering (NACE code 7219). Currently, its research activity is significantly diminished and its results mainly derive from its real estate renting activities.

Statement of interest in subsidiaries

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

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

1. GENERALS INFORMATIONS ABOUT THE GROUP (continued)

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

a) Electromagnetica Goldstar SRL
Administrative management: Stanila Monica – Sole Director, under a 4 year mandate valid until 1 August 2021
Executive management: Viorel Stroică – Executive Director

b) Electromagnetica Fire SRL
Administrative management: Maria Rogoz – Sole Director, under a 4 year mandate valid until 26 March 2022
Executive management: Maria Rogoz – Managing Director

c) Electromagnetica Prestserv SRL
Administrative management: Gheorghe Ciobanu – Sole Director, under a 4 year mandate valid until 3 November 2023
Executive management: Gheorghe Ciobanu – Managing Director

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

2 APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The following amendments and interpretations of the existing standards, issued by IASB, apply for the current reporting period:

- **IFRS 16 "Leasing contracts"** – adopted by EU on 31 October 2017 (in force for the annual periods beginning on 1 January 2019 or subsequently to this date);

- **Amendments to IFRS 9 "Financial instruments"** – Prepayment features with negative compensation - adopted by EU on 22 March 2018 (in force for the annual periods beginning on 1 January 2019 or subsequently to this date);

- **Amendments to IAS 19 "Employees' benefits"** – Modification, reduction or settlement of the plan – adopted by EU on 13 March 2019 (in force for annual periods beginning on 1 January 2019 or subsequently to this date);

- **Amendments to IAS 28 "Investments in associations and joint ventures"** – Long term interests in associations and joint ventures – adopted by EU on 8 February 2019 (in force for annual periods beginning with 1 January 2019 or subsequently to this date)

- **Modifications of various standards further to "Improvements brought to IFRS (period 2015 -2017)"** resulting from IFRS annual improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23), first of all aiming to eliminate irregularities and clarify the forms – adopted by EU on 14 March 2019 (in force for annual periods beginning with 1 January 2019 or subsequently to this date

- **IFRIC 23 "Uncertainty regarding the income tax treatment"** – adopted by EU on 23 October 2018 (in force for annual periods beginning with 1 January 2019 or subsequently to this date).

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

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

IFRS, as adopted by EU, is not significantly different from the regulations adopted by IASB, except the following new standards and amendments to existing standards, which have not been adopted to be used within EU:

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

- **Modifications to IFRS 3 "Combinations of enterprises"** – definition of an enterprise (in force for combinations of enterprises for which the procurement date is on or after the beginning of the first period of reporting beginning on 1 January 2020 or subsequently to this date and for the assets procurement that takes place on or after the date of beginning of that period);

- **Amendments to IFRS 10 "Consolidated Financial Statements**" and **IAS 28 "Investments in associates and joint ventures"** - Sale or contribution of assets between an investor and an associate or a Joint Venture and subsequent amendments (date of entry into force delayed for an indefinite period of time, until the research project on the equity method is completed),

- **Amendments to IAS 1 "Presentation of the financial statements"** and **IAS 8 "Accounting policies, modifications in accounting estimates and errors"** – material definition (in force for annual periods beginning on 1 January 2020 or subsequently to this date);

- **Amendments to references from the Conceptual Framework of IFRS Standards** (applicable for annual periods when they begin or after 1 January 2020);

The company anticipates that the adoption of these new standards and amendments to existing standards will have no significant impact on its Financial statements during the period of their initial application.

Hedge accounting for a portfolio of financial assets and liabilities, whose principles were not adopted by EU, remains unregulated.

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

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

- **IFRS 16 "Leasing agreements"** (in force for periods starting from or after 1 January 2019) was issued by IASB on 13 January 2016. According to IFRS 16, the tenant or lessee recognizes a right of use and a debt from the leasing. The right of use is treated similarly to other non-financial assets and is depreciated accordingly. The debt from leasing is initially evaluated at the value of the leasing payments owed in accordance with the terms of the leasing agreement, reduced to the implicit rate from the agreement, if that can be easily determined. If that interest cannot be determined, the tenant/lessee will use his own interest for loan. Like in the former IFRS 16, IAS 17, the parties classify the leasing agreements as operational or financial. A lease is classified as a financial lease if through it all the risks and compensations related to the ownership right are transferred. Otherwise, a lease is classified as an operational lease. For financial leases, a lessor recognizes revenues over the validity period of the agreement, based on a model that reflects a constant periodical rate of return to the net investment. A lessor recognizes the payments made under the operational lease as straight-line revenue or, if considered more representative, depending on how the benefits from the use of the asset decrease.

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

IFRS 16 Standard is valid for annual periods that begin on 1 January 2019 or later on. IFRS 16 replaces the existing guidelines regarding leases, including IAS 17 Leasing, IFRIC 4 Determination of the extent where such a commitment contains a leasing contract, SIC-15 Leasing operational – Incentives and SIC-27 Evaluation of the economic fund of the transactions that imply the legal form of a leasing contract. A prior adoption of the standard is allowed for entities that apply IFRS 15 on the date or prior to the initial application of the standard IFRS 16. The Standard eliminates the current dual accounting model for lessees and imposes on the companies to bring most of the leasing contracts within the balance in only one model, eliminating the distinction between operational and financial leasing contracts. In accordance with IFRS 16, a contract is or contains a leasing contract in case it confers the right to control the utilization of an asset identified for a period of time in exchange of a compensation. For such contracts, the new model imposes on the lessee to recognize an asset utilization right and a leasing right. Assets holding a utilization right are amortized and debt generates the interest. This will determine higher expenses at the beginning of the leasing contract, even if the lessee pays constant rates. The lessee's accounting remains affected to a great extent by the introduction of the new standard, and the distinction between the operational and financial leasing contracts will be maintained.

The company intends to apply the standard IFRS 16 beginning with 1 January 2019, using the retrospectively modified method. Consequently, the comparative periods were not treated again.

Also, due to the insignificant impact resulted from the restatement from 1 January 2018, the effect of the restatement was not registered in the carried forward result, but it will be recognized in the profit and loss account of 2019.

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

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

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

- **Amendments to IAS 19 "Employee Benefits"**–plan for change, reduction and maintenance, issued by IASB on 7 February 2018. The Amendments must use the updated assumptions from this revaluation, in order to determine the cost of the current services and the net interest for the rest of the reporting period, after the plan is changed.

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

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

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

- Amendments to various standards **"Improvements to IFRSs (2015-2017 cycle)"** issued by IASB on 12 December 2017. The Amendments to various standards, which result from IFRS annual improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) mainly aim to eliminate certain inconsistencies and clarify formulations. The Amendments clarify that: a company re-measures the interest held previously in a joint business when it obtains control over that business (IFRS 3); a company will not revalue its previous interest in a joint business when it gets joint control over the company (IFRS 11); a company keeps records of all the consequences of the income tax on dividends in the same manner (IAS 12); and a company, within its general loans, treats any initial loan contracted in order to develop an asset, where the asset is ready for use or foreseen sale (IAS 23).

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

- **IFRIC 23 "Uncertainty over income tax treatments",** issued by IASB on 7 June 2017. It may be unclear how the tax law applies to a certain transaction or a certain circumstance or if a tax authority will accept a tax treatment for the company. IAS 12 Income tax, specifies the accounting for the current tax and the deferred tax, but not how it reflects the effects of uncertainty. IFRIC 23 lays down requirements which supplement the requirements of IAS 12, specifying how the effects of uncertainty are reflected in the income tax accounting.

3 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the date of the Group report, i.e. 31 December 2018, and in compliance with the Order of the Minister of Public Finance no. 2844/2016 approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to the trading companies the shares of which are admitted to trading on a regulated market, as further amended and clarified. These provisions are consistent with the requirements of the International Financial Reporting Standards adopted by the European Union.

Operating and presentation currency

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation

The consolidated financial statements were prepared on the basis of the historical cost, except for certain financial instruments that are measured at fair value, as explained in the accounting policies. The historical cost is generally based on the fair value of the consideration in exchange of the assets.

Tangible assets are presented at revalued amount, according to IAS 16, while the investment property is specified at fair values, according to IAS 40.

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

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

Foreign currency

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

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

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

	Exchange rate at 30 June 2019	Exchange rate at 30 June 2018
EUR	4.7414	4.6611
USD	4.1955	4.0033

Use of professional estimations and rationales

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 judgments 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 judgments 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 judgments 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 of the change related to the current period is recognized as income or expense during the current period. The effect on the future periods, if any, is recognized as income or expense for such future periods.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of professional estimations and rationales (continued)

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

Estimates and judgments are mainly used for impairment adjustments of non-current assets, estimation of the useful lifespan of an depreciable asset, for the impairment adjustment of receivables, for provisions, for the recognition of deferred tax assets.

According to IAS 36, intangible assets are analyzed to identify indicators of impairment at the balance sheet date. If the net carrying amount of an asset is higher than its recoverable amount, the loss from impairment is 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.

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

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

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 judgment is necessary in determining the value of deferred tax assets that can be recognized based on the probability with regard to the period and level of the future taxable profit and the future fiscal planning strategies.

Accounting principles, policies and methods

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

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

If a standard or interpretation provides for or allows such a classification, an appropriate accounting policy must be selected and applied consistently to each category.

The Group changes an accounting policy only if the change:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

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, which classifies on three levels the input for the techniques used for fair value measurement:

- Level 1 input – quoted prices (unadjusted) on active markets, for identical assets and liabilities for which the entity has access at the time of measurement. Such data offer the most reliable evidence of the fair value and must be used whenever available.

- Level 2 input –different from the quoted prices included in level 1, this input can be directly or indirectly observed for an asset or a liability (e.g. prices quoted for identical or similar assets or liabilities on non-active markets)

- Level 3 input – unobservable input for assets or liabilities. The Group must prepare unobservable inputs based on the best information available under the given circumstances, which may include group own data.

Intangible assets

Initial measurement

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

Measurement subsequent to initial recognition

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

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

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

For their presentation in the profit and loss account, the revenue or loss occurring upon the end of use or disposal of an intangible asset are determined as the difference between the revenue generated by the asset disposal and its 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 the purchase cost or the production cost.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

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

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

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

Therefore, revaluation frequency depends on the changes in the fair value of tangible assets. If the fair value of a revalued tangible asset at the balance sheet date materially differs from its carrying amount, a new revaluation is required. If the fair values are volatile, as the case may be for land and buildings, frequent revaluation may be required. If the fair values are determined for a long period, as the case may be for plant and equipment, less frequent revaluation may be required. IAS 16 suggests that annual revaluation may be required if there are material and volatile changes in the values.

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

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

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

The depreciation of asset ends upon the first occurrence of either the date when the asset is classified as held for sale (or included in a group intended for disposal and classified as held for sale), according to IFRS 5, and the date when the asset is 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.

The land owned is not depreciated.

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

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

The residual value, the useful life and the depreciation method are reviewed at the date of the financial statements.
The Group management deemed appropriate the following durations of useful life for different categories of tangible assets:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Tangible assets	Duration (years)
Buildings	20 - 100
Technological equipment	5 - 12
Measurement, control and adjustment devices	3 - 8
Motor vehicles	4 - 8
Furniture, office equipment, human and material protection equipment	8 - 15

Impairment policy applied by the Group and Parent Company

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

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

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 item is derecognized upon disposal or when no future benefits are expected from its use or disposal.

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

Maintenance and major repairs

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

Leasing contracts

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

The Group chose to apply the proposed standard exception for the leasing contracts with a shorter duration of 12 months from the date of the initial application and for the leasing contracts for assets with a small value (below 5000 USD).

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing contracts (continued)

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

Investment property

Initial measurement

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 subsequent to recognition

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

Financial assets

The Group and SC 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.

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

1. Financial asset measured *at amortized cost if the two requirements below are met:*
   - the financial asset is held within a business model whose aim is to hold financial assets in order to collect the contractual cash-flows and ;
   - the contractual terms of the financial asset generate, at certain dates, cash flows which are exclusively payments of the principal amount and the interest related to the principal amount owed;
2. *financial asset measured at fair value through other components of the comprehensive result, if the two requirements below are met;*
   - the financial asset is 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 IFRS 15, a financial asset or liability is initially measured at fair value, while for a financial asset or liability which is not measured at fair value through profit or loss the costs of the transaction will be added or deducted, costs which are directly attributable to the acquisition or issue of the financial asset or liability
After initial recognition, the subsequent evaluation of financial assets will be made at:

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

Investments in related entities

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

An investor controls an investee if and only if the investor 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.

The interest on the loans directly attributable to the purchase, construction or manufacture of an asset with long production cycle is 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. The interest expenses are carried using the effective interest method.
In the year ended on 31 December 2018, respectively on 30 June 2018 no interest expenses were capitalized in the value of the assets.

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 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 supplier from the operator of the electricity transport and distribution system, in accordance with the legislation in force. These are initially measured at the transaction price from the date of their receipt, published by the electricity market operator. At the end of the financial year, the outstanding green certificates will be measured at the transaction value published by the electricity market operator for the last transaction, and the differences will be reflected in the result of 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 realisable value. The net realisable value is estimated based on the selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. Based on the management's estimates, adjustments are made for non-moving or slow moving inventories of production supplies and materials, as well as the inventories of unmarketable products.

The set up and resuming of adjustments for inventories impairment are made in the profit and loss account.

To determine the inventory outflow cost of supplied materials, the Group uses the First In First Out (FIFO) method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (continued)

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 Group 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.

As this is allowed by the standard, the Group adopted IFRS 9 starting with 1 January 2018, using the retrospectively modified method, with the adjustments cumulated from the initial application, recognized on 1 January 2018 in the own capital, and without modifying the figures from the previous periods. No significant differences between the initial evaluation method according to IAS 39 and the new categories of evaluation in accordance with IFRS 9 for the commercial receivables of the Company. Due to the insignificant impact (in amount of RON 194 thousand), the effect of the restatement was not registered in the reported result.

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

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

Cash and cash equivalents

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

Liabilities

A liability is a present obligation of the Group 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 Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Liabilities (continued)

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 Group management.

The Group 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.

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 Group 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 Group, 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 Group.
The Group 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 Group considered the following:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of goods (continued)

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.

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.

However, because the contractual periods for most contracts coincide with the calendar years for which the annual financial statements are prepared, and because the Group 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 Group and the Company cannot make a reasonable estimation of such a reversal of revenues at the reporting date.

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

Service provision

The Group 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 Group provides the respective services in separate transactions.

Performance obligations fulfilled in time

The Group 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:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of goods (continued)

(a) the customer receives and simultaneously consumes the benefits offered through the performance by the entity as the entity is performing
(b) the performance by the entity creates or improves an asset (e.g. work in progress) which the customer controls, as the asset is being created or improved or
(c) the performance by the entity does not create an asset with alternative use for the entity, while the entity has an enforceable right to payment for the work performed until the respective date

Performance obligations fulfilled at a specific time

If the Group fulfils a performance obligation at a specific time (e.g. the supply of goods with installation or placing in service at a point in time), to determine the specific time when the customer gets the control of a promised asset and the Group fulfils 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 the Group recognizes the revenues in time through the assessment of the progress in fulfilling that performance obligation entirely. The purpose of such assessment is to present the transfer of control of the goods or services promised to a customer client (i.e. the fulfilment of the performance obligation by the supplier).

Reasonable progress assessments

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

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 are not expected to be significant for the Group.

The revenue from renting

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 distribution was approved.

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

Provisions

Provisions are presented separately from other debts, such as the trade debts or estimated debts, because there is an uncertainty around the moment and value at which the settlement will be made in future.
Provisions are 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 consolidated 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 thereto;
d. restructuring;
e. employee benefits;
f. other provisions

When the review by the management together with the legal advisors of the chances for the Group 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.

Provisions for restructuring

The implicit restructuring obligation occurs where an entity:

- has in place an official detailed restructuring plan that presents: the activity or part of activity it refers to, the main locations affected, the location, position and approximate number of 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 left untaken and other provisions according to the employment contracts are recorded. Upon recognition as debts toward employees, the value of the provisions will be reversed through the corresponding income accounts.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Other provisions

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

At the end of each reporting period, the provision is re-measured 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 Group 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.

Employee benefits

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

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

The Group 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 Group 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 Group does not have other additional obligations.

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

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

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

Profit or loss for the period

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share

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

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

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

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

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

Reporting by operating segments

An operating segment is a separate component of the Group, 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 group, and is exposed to risks and benefits that are different from those of the other segments. The main format for the Group's reporting by operating segments is represented by the segmentation by activities.

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

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

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- 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 Group identified the following operating segments for which it presents separate information:

- licensed activity – electricity supply and production.
- unlicensed activity;

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

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Operational Leasing	Total
On 31 December 2018	**154,589,917**	**115,281,150**	**33,737,246**	**3,811,676**	**1,088,185**	**-**	**308,508,174**
Entries, of which:	-	63,377	430,612	117,199	786,093	2,777,762	4,175,043
- from revaluation	-	-	-	-	-	-	-
Outputs, of which:	-	-	-	-	(670,347)	(41,417)	(711,764)
- from revaluation						-	-
On 30 June 2019	**154,589,917**	**115,344,527**	**34,167,858**	**3,928,875**	**1,203,931**	**2,736,345**	**311,971,453**

Cumulated impairment	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Operational Leasing	Total
On 31 December 2018	**328,881**	**0**	**14,223,866**	**1,652,341**	**-**	**-**	**16,205,088**
Impairment in the year	-	2,104,594	2,006,383	218,982	-	- 642,348	4,972,307
Cumulated impairment related to outputs	-	-	-	-	-	(41,417)	(41,417)
On 30 June 2019	**328,881**	**2,104,594**	**16,230,249**	**1,871,323**	**-**	**600,931**	**21,135,978**

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Adjustments for depreciation	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Operational Leasing	Total
On 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**	
Depreciation adjustments recognized in profit or loss	-	-	-	-	-	-	
Reprise of depreciation adjustments recognized in profit or loss	-	-	-	-	-	-	
On 30 June 2019	**-**	**-**	**-**	**-**	**-**	**-**	
Net accounting value							
On 31 December 2018	**154,261,036**	**115,281,150**	**19,513,380**	**2,159,336**	**1,088,185**	**-**	**292,303,086**
On 30 June 2019	**154,261,036**	**113,239,933**	**17,937,609**	**2,057,552**	**1,203,931**	**2,135,414**	**290,835,475**

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Cost	**Land and land improvement**	**Buildings**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in progress**	**Total**
On 31 December 2017	**145,074,716**	**124,983,618**	**32,072,931**	**3,589,589**	**1,627,276**	**307,348,130**
Entries, of which:	-	211,389	1,052,440	210,132	982,222	2,456,183
from revaluation	-					
Outputs, of which:	-	-	(41,894)	(294)	(1,401,425)	(1,443,013)
from the determination of the net amount for revaluation	-	-	-	-	-	-
Decrease of the value following the revaluation						
On 30 June 2018	**145,074,716**	**125,195,007**	**33,083,477**	**3,799,427**	**1,208,073**	**308,360,700**

Cumulated impairment	**Land and land improvement**	**Buildings**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in progress**	**Total**
On 31 December 2017	**303,047**	**4,523,095**	**9,829,855**	**1,179,792**	**-**	**15,835,789**
Impairment in the year	12,917	1,998,994	2,494,630	280,964	-	4,787,505
Cumulated impairment related to outputs	-	-	(10,124)	(292)	-	(10,416)
On 30 June 2018	**315,964**	**6,522,089**	**12,314,361**	**1,460,464**	**-**	**20,612,878**

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

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Adjustments for depreciation	**Land and land improvement**	**Buildings**	**Plant and machinery**	**Other tangible assets**	**Tangible assets in progress**	**Total**
On 31 December 2017	**-**	**-**	**-**	**-**	**-**	**-**
Adjustements of depreciation recognized in profit or loss	-	-	-	-	-	-
Reprise of depreciation adjustments reconized in profit or loss	-	-	-	-	-	-
On 30 June 2018	**-**	**-**	**-**	**-**	**-**	**-**
Net accounting value						
On 31 December 2017	**144,771,669**	**120,460,523**	**22,243,076**	**2,409,797**	**1,627,276**	**291,512,341**
On 30 June 2018	**144,758,752**	**118,672,918**	**20,769,116**	**2,338,963**	**1,208,073**	**287,747,822**

Tangible assets inflows are represented by modernizations of the facilities of the Group, as well as by purchases of technological equipment.

The tangible assets disposed of represent a decrease in value as a result of sale and discarding.

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Name of the asset	Net carrying amount 30 June 2019	Net carrying amount 31 December 2018
- Land in Domnesti, Ilfov County = 67,713.56 m2	12,632,266	12,632,266
- Land in Moara Vlăsiei, Ilfov County = 70,469 m2	6,901,868	6,901,868
- Land 35-37 Mitropolit Filaret Street, district 4 Bucharest = 1,595 m2	4,574,936	4,574,936
- Land at 19 Veseliei Street, district 5, Bucharest =16,095 m2	14,187,374	14,187,374
- Buildings (cadastral parcels no. 13,15) 266-268 Calea Rahovei Street, district 5, Bucharest	26,598,846	26,843,201
- Buildings (cadastral parcels no. 1-3, 9, 10, 18, 19, 21, 23-26) 266-268 Calea Rahovei Street, district 5, Bucharest	33,559,246	33,620,510
- Land in 242 Calea Rahovei Street = 2,157 m2	5,160,797	5,160,797

Tangible assets include assets acquired through governmental grants and used in the activity licensed at one of the micro hydro electric plants located in Brodina commune, Suceava County. The outstanding value of the investment as of 30 June 2019 is 11,418,690 lei, of which 4,655,135 lei represents the granted amount. The outstanding value of the investment as of 31 December 2018 was 11,418,690 lei, of which 4,736,744 lei represents the granted amount.

Fair value of tangible assets

The tangible assets of the Group, other than those in progress, are presented in the financial statements at their revalued measure representing the fair value at the time of measurement, less the accumulated amortization and the allowances for impairment.

The fair value of the Group lands was determined using the direct comparison method.

This method is recommended for properties when there is sufficient and reliable information about transactions or sale offers with similar properties in the area. The analysis of the prices at which the transactions were made or the prices requested or offered for comparable properties is followed by corrections of their prices, in order to quantify the differences between the prices paid and the prices requested or offered, caused by the differences between the particularities of each property, called comparators.

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

The cost approach implies that the maximum value of an asset for an informed buyer is the amount which is necessary to buy or build a new asset with equivalent utility. Where the asset is new, from its current gross cost must be deducted all the forms of impairment attributable to the asset until the date of evaluation.

The income approach provides an indication of the value through conversion of future income flows into the asset value (market value or investment value).

Information about the fair value hierarchy as of 30 June 2019 and 31 December 2018:

4. PROPERTY,PLANT AND EQUIPMENT (continued)

Fair value of tangible assets (continued)

	Level 1	Level 2	Level 3	Fair value as of 30 June 2019
Lands and land improvements	-	-	154,261,036	154,261,036
Buildings	-	-	113,239,933	113,239,933

	Level 1	Level 2	Level 3	Fair value as of 31 December 2017
Lands and land improvements	-	-	154,261,036	154,261,036
Buildings	-	-	115,281,150	115,281,150

Both during 2019 and 2018 there was no transfer between the fair value levels.

Leasing

General presentation of the operational leasing	30 June 2019
Right of use of assets	
right of use of assets - lands and buildings	2,334,538
Right of use of assets – plants and machines	401,807
Total right of use of assets	**2,736,345**

Amortization	30 June 2019
Amortization of the right of use of assets	**600,931**

Leasing debts	30 June 2019
Long-term leasing debts	1,132,354
Short-term leasing debts	1,023,169
Total leasing debts	**2,155,523**

5 REAL ESTATE INVESTMENT

The Group 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 Group selected the fair value model for the presentation of investment property in its financial statements.

5 REAL ESTATE INVESTMENT (continued)

At 30 June 2019, the investment property is structured as follows:

	January - June 2019	Year 2018
Initial balance	**8,433,921**	**8,642,116**
Inflows of which:	-	699,248
from fair value measurement	-	228,280
Transfers	-	470,968
Outflows of which:	-	(907,443)
from fair value measurement	-	(673,766)
Transfers	-	(233,677)
Final balance	**8,433,921**	**8,433,921**

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

Please note that there are no limitations imposed on the level of carrying out real estate investment or on the transfer of income and collections from assignation.

Information related to the hierarchy of the fair value on 30 June 2019 and 31 December 2018:

	Level 1	Level 2	Level 3	Fair value la 30 June 2019
Real estate investments	-	-	8,433,921	8,433,921

	Level 1	Level 2	Level 3	Fair value la 30 June 2019
Real estate investments	-	-	8,433,921	8,433,921

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.

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

The useful life was estimated at 3 years for most of the intangible assets. The ERP information system will be amortized over 5 years.

The situation of intangible assets at 30 June 2019 was:

6 INTANGIBLE ASSETS (continued)

Cost	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
On 31 December 2018	**902,855**	**2,711,909**	**78,313**	**3,693,077**
Inflows	58,597	(4,476)	74,409	128,530
Outflows	(2,293)		(51,743)	(54,036)
On 30 June 2019	**959,159**	**2,707,433**	**100,979**	**3,767,571**

Accumulated amortization	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
On 31 December 2018	**663,532**	**2,325,104**	**-**	**2,988,636**
Amortization for the year	82,335	190,363	-	272,698
Accumulated amortization for outflows	-	-	-	-
On 30 June 2019	**745,867**	**2,515,467**	**-**	**3,261,334**
Net carrying amount				
On 31 December 2018	**239,323**	**386,805**	**78,313**	**704,441**
On 30 June 2019	**213,292**	**191,966**	**100,979**	**506,237**

Cost	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
At 31 December 2017	**752,208**	**2,711,909**	**212,122**	**3,676,239**
Inflows	55,148	-	-	55,148
Outflows				
Transfers	-	-	(53,204)	(53,204)
At 30 June 2018	**807,356**	**2,711,909**	**158,918**	**3,678,183**
Accumulated amortization				
At 31 December 2017	**483,883**	**1,943,555**	**-**	**2,427,438**
Amortization for the year	83,899	191,060	-	274,959
Accumulated amortization for outflows	-	-	-	-
At 30 June 2018	**567,782**	**2,134,615**	**-**	**2,702,397**
Net carrying amount				
At 31 December 2017	**268,325**	**768,354**	**212,121**	**1,248,800**
At 30 June 2018	**239,574**	**577,294**	**158,918**	**975,786**

7 OTHER NON-CURRENT ASSETS

This category includes the performance guarantees granted to customers, which were classified as lon-term assets, according to the respective contracts.

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

	30 June 2019	31 December 2018
Good performance bond granted to customers	1,078,197	1,031,802
Trade receivables spread in instalments on long term	20,343,650	20,598,443
Adjustment of receivables to the current value	(1,640,720)	(1,299,487)
Other long term non-current assets	89,193	188,316
Total	**19,870,320**	**20,519,074**

The receivables spaced out on the long term, with a net value of 18,702,930 Lei on 30 June 2019, have been updated to their current value, while the financial value-time effect amounted to 1,640,720 Lei. The current portion is recognized in trade receivables (Note 9).

8 INVENTORIES

	30 June 2019	31 December 2018
Raw materials	8,081,705	8,183,779
Consumables	1,412,680	1,764,677
Finished goods	8,346,082	5,652,216
Work in progress	2,519,392	2,079,010
Other inventories	1,625,924	1,850,600
Allowances for the impairment of inventories	(2,046,752)	(1,744,374)
Total	**19,939,031**	**17,423,142**

Other inventories include inventory items, finished products or materials which are in the custody of third parties, as well as advance payments made to suppliers of goods.

The changes in inventory impairments is as follows:

	30 June 2019	31 December 2018
Balance at the beginning of the period	**1,744,374**	**1,137,087**
Allowance for impairment carried	558,714	1,167,901
Allowance for impairment written down	(256,336)	(560,614)
Balance at the end of the period	**2,046,752**	**1,744,374**

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

The Group did not pledge inventory items to secure liabilities.

9 TRADE RECEIVABLES

Receivables are recorded at the nominal value and highlighted in the analytical 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.

	30 June 2019	31 December 2018
Internal trade receivables	48,272,400	37,120,289
External trade receivables	6,415,546	5,555,204
Estimated trade receivables	423,314	3,574,011
Internal trade receivables adjustment at present value	(585,629)	(478,792)
Allowances for the impairment of trade receivables	(5,301,357)	(4,314,458)
Net trade receivables	**49,224,274**	**41,456,253**

*The internal trade receivables also include the performance guarantees with a maturity of less than one year, granted to customers. At 30 June 2019, these are in amount of 649,419 lei (31 December 2018: 412,925 lei).

Sale or service contracts concluded with under supplier credit conditions were updated at present value. The total effect of the time value of money was 2,226,349 lei, of which 585,629 lei for less than one year period, and 1,640,720 lei for more than one year period. The section for over one year is recognized under Other Fixed Assets (Note 8).

The balance of client receivables, on 30 June 2019, amounted to 130,320 Lei (31 December 2018: 607,455 Lei) and represents promissory notes issued by clients in favor of the Company, based on the agreements executed.

The move within the allowances for impairment of receivables is the following:

	2019	2018
Balance at the beginning of the period	**4,314,458**	**4,104,655**
Impairment allowance	1,096,583	276,528
Decreases of impairment allowances	(109,684)	(66,725)
Balance at the end of the period	**5,301,357**	**4,314,458**

Doubtful customers or those in litigation represent, at 30 June 2019, 5,301,357 lei (at 31 December 2018 – 4,314,458 lei).

The carried depreciations in value refer to amounts which were not collected from doubtful customers or customers in litigation and for whom it had been estimated a risk of non-collection, according to the policy adopted by the company.

The period of recovery of the receivables decreased in the 1st semester of 2019 to 112 days compared to 125 days in the same period of the past year.

9 TRADE RECEIVABLES (continued)

The accounts receivable aging at the time these financial statements were prepared:

	Gross amount 30 June 2019	Provision 30 June 2019	Gross amount 31 December 2018	Provision 31 December 2018
Due for payment	41,730,765	-	33,728,132	-
1 – 30 days past due	2,366,675	-	5,643,460	-
31 – 90 days past due	2,604,884	-	1,260,969	-
90 – 180 days past due	2,028,077	-	669,878	-
180 – 365 days past due	579,862	(77,744)	162,928	(10,325)
Over 365 days past due	5,215,368	(5,223,613)	4,305,344	(4,304,133)
TOTAL	**54,525,631**	**(5,301,357)**	**45,770,711**	**(4,314,458)**

10. OTHER CURRENT ASSETS

	30 June 2019	31 December 2018
Debtors	96,520	44,125
Accrued expenses	3,499,397	2,301,972
Suppliers debtors	179,421	81,487
Other assets	283,972	525,141
Total	**4,059,310**	**2,952,725**

The accrued expenses of 3,499,397 lei mainly consist of rent paid in advance, insurance premiums for the civil liability of directors and various subscriptions.

In **Other assets** the following are mainly included non-exigible VAT amounting to 102,685 Lei interests to be collected in the amount of 14,906 Lei amounts to be recovered from health social insurances amounting to 166,381 Lei.

11. CASH AND CASH EQUIVALENTS

	30 June 2018	31 December 2018
Petty cash	32,150	18,177
Cash at bank	32,294,875	33,765,558
cash equivalents	13,395	515
Total	**32,340,420**	**33,784,250**

	30 June 2019	31 December 2018
Restricted cash	10,104,418	11,269,250
Total	**10,104,418**	**11,269,250**

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

12. SHARE CAPITAL

The share capital belongs to the parent company. The subscribed and paid up share capital is 67,603,870 lei divided into 676,038,704 shares of a nominal value of 0.10 lei each, that are fully paid-up.

The structure of the shareholders that own over 10% of the share capital at 31 December 2018 is, according to the Central Depository Register:

	30 June 2019		31 December 2018	
SHAREHOLDER	**NO. OF SHARES**	**%**	**NO. OF SHARES**	**%**
PAS Association	200,302,763	29.6288	200,302,763	29.6288
SIF Oltenia SA	176,717,594	26.1402	176,717,594	26.1402
Natural persons	219,700,554	32.4982	222,392,283	32.8964
Legal persons	79,317,793	11.7327	76,626,064	11.3346
Total	**676,038,704**	**100**	**676,038,704**	**100**

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

13 RESERVES

The legal reserves

	January– June 2019	2018
Balance at beginning of the period	**19,453,374**	**34,422,531**
Increase	500,017	401,175
Decrease		(15,370,332)
Balance at end of the period*	**19,953,391**	**19,453,374**

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

*From the legal reserve recognized at 30 June 2019, the amount of 8,649,876 lei represents the balance of the inflation adjustment calculated according to IAS 29 (31 December 2018: 8,649,876 lei).

Revaluation reserves are 97,961,273 lei at 30 June 2019.
They increased due to revaluation in relation to the balance at the beginning of the period,

This decrease was registered at the same time with the transfer of the revaluation reserve at the result as reported further to amortization.

	January - June 2019	2018
Balance at beginning of the period	**99,575,840**	**86,843,127**
Net increases from revaluation		18,471,301
Decrease	(1,614,567)	(5,738,588)
Balance at end of the period	**97,961,273**	**99,575,840**

At 30 June 2019, the Group also recorded **other reserves** in amount of 63,797,295 lei, of which its own financing sources represent 98%.

13 RESERVES (continued)

	January- June 2019	2018
Balance at beginning of the period	**61,957,912**	**62,207,716**
Increase	2,339,400	151,371
Decrease	(500,017)	(401,175)
Balance at end of the period	**63,797,295**	**61,957,912**

14 PROFIT/LOSS CARRIED FORWARD

At 30 June 2019, the carried forward result derived from the transfer of revaluation reserves due to amortized or decommissioned assets was 1.398.841 lei.

As part of AGOA Electromagnetica dated 22 April 2019 the allocation of the amount of 2,704,155 Lei was approved by parent Company for the payment of dividends related to the year 2018 (namely 0.004 Lei /share).

15 INVESTMENT SUBSIDIES

	Total	< 1 year	> 1 year
Investment subsidies at 30 June 2019	4,655,135	163,219	4,491,916

	Total	< 1 year	> 1 year
Investment subsidies at 31 December 2018	4,736,744	163,219	4,573,525

In 2012, the parent company received an investment subsidy of 5,997,788 lei for the modernization of the micro hydro electric plant of Brodina 2 (Suceava), which is transferred to incomes concomitantly with the carrying of the amortization of the non-current assets acquired within this project. The net carrying amount of the non-current assets purchased with this subsidy is presented in Note 4.

16 PROVISIONS

Name	Balance 01.01.2019	Inflows (setup)	Outflows (cancellation)	Balance 30.06.2019
Provisions for performance guarantees to customers	1,340,884	-	(80,851)	1,260,033
Provisions for liabilities and charges	56,130	79,248	(24,690)	110,688
Provision for Employee Benefits	2,541,342	-	(1,584,141)	957,201
TOTAL	**3,938,356**	**79,248**	**(1,689,682)**	**2,327,922**

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

17 TRADE PAYABLES AND OTHER LIABILITIES

Trade payables	30 June 2019	31 December 2018
Internal trade payables	7,215,262	6,579,138
External trade payables	4,055,295	3,912,032
Estimated trade payables	5,245,891	6,957,044

	30 June 2019	31 December 2018
Advances received from customers	1,437,335	508,161
Salaries and social security contributions	2,955,683	3,388,539
Deferred income	737,764	98,191
Other liabilities	24,361,165	22,097,976
Total trade receivables and other liabilities	**46,008,395**	**43,541,081**

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

The debt reimbursement period increased to 95 days during semester 1 of year 2019 as compared to 68 days during the same period of year 2018.

The Group does not have significant outstanding trade payables.

The Group does not have outstanding liabilities to employees and the state budget; the amounts presented represent liabilities for June 2018, which are paid on the due date, in July 2019.

At 30 June 2019, the Group has no long term loans.

At 30 June 2019, the Group has several credit agreements approved. These are presented in Note 26 to these financial statements. At 30 June 2019 and respectively at 31 December 2018 there were no debts relating to payable credits.

Other debts include guaranties received from lessees, VAT to be paid, other taxes and levies received further to the decisions of the Council of Competition amounting to 9,021,308 Lei and 10,024,825 Lei respectively. For both these amounts the Company requested to ANAF the relevant suspension according to art.235 from the Code of Fiscal Procedure.

The guarantees received at 30 June 2019 amount to 4,816,372 lei and will be settled according to the contractual clauses.

	Total	< 1 year	>1 year
Guarantees received year 2019	4,816,372	2,208,054	2,608,318

	Total	< 1 year	>1 year
Guarantees received year 2018	2,686,814	1,375,795	1,311,019

18 REVENUE

	January- June 2019	January- June 2018
Revenue	**109,382,152**	**152,479,963**
- Revenue from sold production	41,889,774	44,962,802
- Rental income	8,255,143	7,767,385
- Revenue from sale of goods	59,237,236	99,749,776
Investment income	**175,284**	**36,923**
- Interest income	175,284	36,923
- Net income from real estate investment measured at fair value		-
		-
Finished goods inventory variation and production in progress	**10,565,235**	**10,454,887**
Work performed and capitalized by the entity	**380,417**	**277,016**
Other revenues / (Expenses)	**3,590,194**	**2,491,045**
-Revenues from subsidies	163,219	2,005,936
-Net provisions	2,327,922	531,897
-Net foreign exchange difference	190,201	(51,053)
-Other net revenues	908,852	4,265
Net revenue	**124,093,282**	**165,739,834**

Net provisions represent incomes from adjustments for stock and receivables depreciation as well as incomes/expenses related to provisions for performance bonds granted to the customers.

19 EXPENSES

	January- June 2019	January- June 2018
Expenses related to materials	**73,916,931**	**114,545,200**
- Raw materials and consumables	25,526,277	30,106,493
- Goods purchased for resale	46,788,769	82,749,092
- Electricity, heating and water	1,601,885	1,689,615
Expenses related to employee	**19,268,272**	**16,508,209**
- Salaries	18,841,740	16,138,361
- Other personnel expenses	426,532	369,848
Other expenses	**16,420,676**	**15,941,799**
- Postage	109,343	112,168
- Maintenance and repair	195,417	164,558
- Rental	133,811	88,414
- Advertisement and entertainment	687,554	248,939
- Insurance	259,352	285,556
- Transport and travel	548,171	711,281
- Subcontracted works	3,876,783	4,134,610
- Other taxes and charges	812,675	807,616
- Consultants and collaborators	1,150,583	820,983
- Green certificates	6,347,939	5,817,607
- Other operating expenses	2,299,048	2,750,067
Expenses related to depreciation and impairment	**5,292,150**	**5,062,464**
- Depreciation	5,292,150	5,062,464
- Net impairment		
Total expenses	**114,898,029**	**152,057,672**

19 EXPENSES (continued)

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

20 FINANCIAL EXPENSES

	January- June 2019	January- June 2018
- Interest expense	2,421	17,154
- Bank charges	388,728	466,261
Total financial expenses	**391,149**	**483,415**

21 INCOME TAX

Income tax recognized in profit or loss:

	30 June 2019	30 June 2018
Current income tax		
Current income tax expense	1,722,753	2,248,379
Deferred income tax		
Deferred income tax (revenue) / expense	(656,561)	(27,891)
	1,066,192	**2,248,379**

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

Indicator	**30 June 2019**	**30 June 2018**
Net accounting profit	**7,737,912**	**10,965,179**
Deductions	(2,774,178)	(3,864,149)
Non-taxable income	(3,504,585)	(10,913,604)
Non-deductible expenses	9,308,060	17,864,943
Taxable profit	10,767,209	14,052,369
Tax loss from previous years	-	-
Current income tax	1,722,753	2,248,379
Income tax reduction	-	-
Income tax due at end of period	**1,722,753**	**2,248,379**

At 30 June 2019, the total current income tax liability is 887,173 lei (30 June 2018:514,143 lei).

21 INCOME TAX (continued)

The analysis of the deferred income tax for the reporting period:

	Initial balance	Recognized in profit or loss account	Recognized in other of comprehensive income components	Final balance
Non-current assets	19,426,239	(416,321)	-	19,009,918
Effect of time-value of money	(284,525)	(71,691)	-	(356,216)
Receivable value adjustment	(688,994)	(157,906)	-	(846,900)
Inventory value adjustment	(263,766)	(48,381)	-	(312,147)
Employee benefits	(406,615)	253,463	-	(153,152)
TOTAL	**17,782,339**	**(440,836)**	**-**	**17,341,503**

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

22 AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	30 June 2019	31 December 2018
Group	531	542
Parent company	467	479

Expenditure on salaries and taxes for the first half of the year (H1), recorded in 2018 and 2017, are:

	January- June 2018	January- June 2017
Expenditure on salaries	**18,841,740**	**16,138,361**
of which in parent company	17,904,078	14,825,646
Social security costs	**426,532**	**369,848**
of which in parent company	395,120	337,310
Total	**19,268,272**	**16,508,209**
of which in parent company	18,299,198	15,162,956

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

23 TRANSACTIONS WITH RELATED PARTIES

At 30 June 2019, respectively at 31 December 2018, the Group had no other related entities than the subsidiaries included in the consolidation; the balances and transactions with these subsidiaries were purposely eliminated, in view of preparing the consolidated financial statements.

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

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

24 INFORMATION BY OPERATING SEGMENTS

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

- Licensed activity – electricity supply and production
- Unlicensed activity

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

The information by operating segments is reported according to the activities of the Group. 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.

First semester 2019	**Unlicensed activity**	**% Total Group**	**Licensed activity**	**% Total Group**	**Total Group**
Net profit	2,088,956	27	5,648,956	73	7,737,912
Total assets	334,083,057	78.57	91,125,932	21.43	425,208,989
Total liabilities	30,775,972	62.32	18,610,737	37.68	49,386,709
Customer revenue	47,697,782	43.61	61,684,370	56.39	109,382,152
Interest income	175,284	100	-	-	175,284
Impairment and depreciation	4,327,145	81,77	965,005	18,23	5,292,150

First semester 2018	**Unlicensed activity**	**% Total Group**	**Licensed activity**	**% Total Group**	**Total Group**
Net profit	3,488,784	31.78	7,489,475	68.22	10,978,259
Total assets	330,836,266	80.08	82,282,202	19.92	413,118,468
Total liabilities	49,735,820	65.15	26,604,763	34.85	76,340,583
Customer revenue	52,065,313	34.15	100,414,650	65.85	152,479,963
Interest income	46,452	100	-	n/a	46,452
Impairment and depreciation	4,434,280	79,18	1,165,790	20.82	5,600,070

Main products and production structure

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

Lighting items, systems and solutions with LED

The production of LED lighting items represents an important extent in the turnover of the Company (21 %) being the most important component of the company production activity (with a weight of about 53 %).

The trend of year 2019 is represented by the provision of solutions that should make possible the permanent control of light and monitoring of electric parameters. The Led lighting items are integrated in modern lighting management systems made up of the Energsys system, system dimming, surveillance camera that adjusts lighting subject to the car traffic and VE loading stations.

The product range covers the following fields:

- street lighting;

- commercial premises (supermarkets, commercial galleries, gas stations, stores, stands, parking lots shop windows, advertising panels);
- industrial premises (workshops, deposits, etc.);
- offices;

- public buildings (institutions, hospitals, schools);
- residential.

The competitive advantage of LED lighting equipment is due to its high efficiency (more than 150 lm/w), to its long operation duration and reduced maintenance costs. Moreover, the LED lighting items provide a quality light, they are environment friendly and make possible their integration within telemanagement systems.

Equipment for the distribution and measurement of electric energy

The entire production of meters and systems is destined to the domestic market. Electric energy meters are sold as such or they are integrated within EnergSys systems for the measurement and telemanagement of the electric energy. In 2019, the sale of meters and energy telemanagement systems (as part of the modernization works of low voltage distribution network) was significantly reduced, considering the trend of Concession Distribution Operators towards solutions based on PLC type communication solutions and also due to the entry on the Romanian specialized market of products imported from China. We hereby state that the specific production has registered during the latest years fluctuations subject to the dynamics of procurements carried out by the distribution companies fr electric energy.
As such, the system EnergSys was developed towards the achievement of specific solutions subject to the customers' request, in order to solve specific problems related to the measurement and distribution in certain areas, assuring at the same time the conformity with the requirements under the orders ANRE regarding the implementation of Systems of Smart Measurement (SMI) in Romania (Order 25/2018 and Order 177/2018 ANRE).
A focus was also laid on extending the applications of the metering system ENERGSys (registered trademark of Electromagnetica) both in rural areas with problems as regards the losses of electric energy and also within the urban/rural public lighting networks, by monitoring consumption in the Turning On Points and the development within the existing system of functions that are specific to Smart-City type platforms.

Electric devices

The production of low voltage electric devices represets an element of continuity and stability within the export production, showing in the first semester 2019 more than 62 % of total exports. This product group registered an increase in sales as compared to semester 1 in 2018, of 14 %.

Production of electric energy from renewable source

The energy production is a field governed by ANRE, the company holding the license of producer ever since 2007. In 2019 no investments were necessary in those 10 micro hydro stations within the basin of Suceava river, as they were recently modernized, under a program of investments that was finalized in 2014. In Semester 1 2019 the production of electric energy significantly exceeded the average of the last years. Approximately 35 % of the need of green certificate required to supply energy were assured by the green certificates related to its own energy production.

Incomes from Semester 1 2019 registered an increase of 80 % as to the similar period from 2018, further to the rainfall in excess.

Activity to supply electric energy

The activity to supply the energy is governed by ANRE. The company is holding the supplier license since 2001, this being renewed in 2013 based on the regulations under the new energy law (L123/2012) for another 10 years. In Semester 1 from 2019 the incomes coming from the electric energy provision diminished as compared to Semester 1 from 2018, the main cause being the unstable legislation (OUG114/2018).

24 INFORMATION BY OPERATING SEGMENTS (continued)

Utilities renting and supplying services

Electromagnetica manages approximately 33,000 square meters of premises to be leased in Bucharest, 3,500 square meters in Varteju, county Ilfov. On 30.06.2019, as regards the office located in Calea Rahovei 266-268, the average occupation degree was 97.77 % and the average leasing price reached EUR 7.03 /square meter.

The activity related to leasing and real estate development registered an increase of approximately 5 % as compared with the same period of the preceding year, as a result of the degree of leasing and the average EUR/Leu rate of exchange that favorably evolved as compared to the year 2018.

25 RISK MANAGEMENT

The Group is exposed to the following risks:

Equity risk

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

The Group monitors capital based on the debt ratio. This indicator is calculated as the ratio of the net debt and the total capital employed. The net debt is calculated as the sum of the total loans, total suppliers and other liabilities (as presented in the statement of the financial position) less the cash and cash equivalents. The total capital employed is determined as the sum of the net debt and equity (as presented in the financial position).

The debt ratio at 30 June 2019 was:

	30 iunie 2019	**31 decembrie 2018**
Total loans	2,155,523	-
Suppliers and other current liabilities	46,008,395	43,541,081
Less: Cash and cash equivalents	(32,340,420)	(33,784,250)
Net current Liabilities/(Assets)	**15,823,498**	**9,756,831**
Equity	**350,180,361**	**345,377,260**
TOTAL CAPITAL EMPLOYED	**366,003,859**	**355,134,091**
Debt ratio	**4.32%**	**2.75%**

Credit risk

Credit risk is the possibility that the contracting parties breach their contractual obligations resulting in financial loss for the company. When possible and allowed by market practices, the Group 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 Group applied restrictive policies to the delivery of products to doubtful customers. Insurance policies were contracted for foreign market receivables.

25 RISK MANAGEMENT (continued)

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 Group is paying more attention to the creditworthiness and financial discipline of its contractual partners.

	2019	**2018**
Trade receivables	69,005,401	61,787,011
Other receivables	4,148,503	3,141,041
Cash and cash equivalents	32,340,420	33,784,250
	105,494,324	**98,712,302**

Market risk

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

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

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

At 30 June 2019, their situation is as follows:

	Assets	**Deferred**	**Net exposure**
EUR	3,111,932	636,892	2,475,040
USD	88,120	249,989	(161,869)

At 31 December 2017, their situation is as follows:

	Assets	**Deferred**	**Net exposure**
EUR	3,568,678	638,561	2,930,117
USD	205,693	149,295	56,398

The analysis of the foreign exchange risk sensitivity for a +/- 10% variation in the exchange rate shows and impact on the gross result of the period of +/- 1,104,640 lei.

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

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

25 RISK MANAGEMENT (continued)

The Group is exposed to an exchange rate risk because it largely procures materials from import. In order to limit the effect of exchange rate changes, the payment schedule was matched with the foreign currency collection schedule and usually the Group had a surplus of cash flow. The change of prices for production supplies and materials imposed a continuous review of the cost prices. To maintain the profitability of certain products, the group took action so as to control prices at the suppliers and it improved the related technological processes.

Liquidity and cash flow risk

The Group 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. To this effect, the Group extended the mortgage agreements in favor of the banks with which the Group has open credit lines and letters of bank guarantee, within the limit of 40% of its total non-current assets, less receivables, to ensure that it will be able to perform its obligations in case of short-term cash deficit. Although these credit lines were accessed rarely and at a low rate, their ceiling was maintained as high as possible. At the same time, investments were limited to those with own financing sources and those with direct impact on the turnover. The liquidity and cash flow risk management policy must be adapted to the new and more exigent commercial practices. This risk is closely related to the risks described above.

Trade receivables and payables by maturity:

	30 June 2019	past due	0 - 1 year	1 - 2 years	2 - 5 years	> 5 years
Trade receivables and other receivables	69,385,893	7,816,522	42,437,663	8,854,014	10,277,694	-
Trade payables and other debts	43,833,296	20,609,095	23,066,132	110,784	47,285	

	30 June 2018	past due	0 - 1 year	1 - 2 years	2 - 5 years	> 5 years
Trade receivables and other receivables	62,356,277	8,501,782	34,555,540	9,355,610	9,943,345	-
Trade payables and other debts	42,934,729	26,758,893	16,084,396	91,440	-	-

Hierarchy of the fair value of the financial assets and financial debts

30 June 2019	Carrying value	Fair value	Level
Financial assets			
Trade receivables	69,005,401	69,005,401	Level 1
Cash and cash equivalents	32,340,420	32,340,420	Level 1
Other current assets	4,148,503	4,148,503	Level 1
	105,494,324	**105,494,324**	

30 June 2019	Carrying value	Fair value	Level
Non-current financial liabilities			
Trade payables and other debts	2,608,318	2,608,318	Level 1
	2,608,318	**2,608,318**	
Current financial liabilities			
Trade payables	46,008,395	46,008,395	Level 1
	46,008,395	**46,008,395**	

25 RISK MANAGEMENT (continued)

31 December 2018	Carrying value	Fair value	Level
Financial assets			
Trade receivables	61,787,011	61,787,011	Level 1

Cash and cash equivalents	33,784,250	33,784,250	Level 1
Other current assets	3,141,041	3,141,041	Level 1
	98,712,302	**98,712,302**	

31 December 2018	**Carrying value**	**Fair value**	**Level**
Non-current financial liabilities			
Trade payables and other debts	1,311,019	1,311,019	Level 1
	1,311,019	**1,311,019**	
Current financial liabilities			
Trade payables and other debts	43,541,081	43,541,081	Level 1
	43,541,081	**43,541,081**	

Political and regulatory risk

The activity of the Group on regulated markets, such as the energy production and supply market, exposes it to the legislative risk. Also, the modifications regarding fiscality or labor relations may have a significant impact on the group activity.

Calamity risk

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

Risk related to the lack of skilled human resources

This risk became an important one both for Electromagnetica and also at country level. Due to factors as for instance: massive emigration, a strong competition and the relative high salary level within Bucharest area, the group was faced when posting recruitment ads with a lack of skilled workers for its production activities.

Risk related to data protection and processing

The risk may be generated by such situation as the accidental loss or modification of data, as well as the unauthorized access to personal data.

Irrespective of the processing grounds, Electromagnetica respects the obligations provided in the General Rules regarding data protection (RGPD) – Rule (EU) 2016/679 including the obligation to inform the concerned persons, at the time of such data collection.

This note presents information about the exposure of the Group to each of the above risks, the goals of the Group, its policies and processes for risk assessment and management and its procedures for capital management.

25 RISK MANAGEMENT (continued)

General framework for risk management

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

The activity is governed by the following principles:

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

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

The risk management policies of the Group are defined to ensure the identification and analysis of the risks the Group is confronted with, determine the appropriate limits and control 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 Group. Through its training and management standards and procedures, the Group aims to develop an orderly and constructive control environment where all employees understand their roles and duties.

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

26 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At 30 June 2019, the Group had the following commitments for bank loans and guarantee agreements/loan contracts concluded with the financing banks (BCR, BRD, Libra Internet Banking, OTP BANK):

- revocable credit line, BCR of 9,000,000 lei (of which 4,500,000 non cash), uncommitted at 30 June 2019.
  Guarantees: 1st, 2nd, 3rd ranking mortgage on land outside the built-up area, and 1st ranking mortgage on the accounts opened with BCR.
- non-cash guarantee agreement with BCR of 30,000,000 lei, of which 14,425,309 lei committed at 30 June 2019;
  Guarantees: 3rd ranking mortgage on the accounts opened with BCR, 1st and 4th ranking mortgages on property.
- guarantee agreement with cash collateral in amount of 16,050 EUR, Guarantee Letter issued in favor of some beneficiaries.
- non-cash guarantee agreement amounting to 10,024,825 Lei to the favor of ANAF with a collateral cash guarantee.
- guarantee agreement authorized overdraft of 90,000 lei.
  Guarantees: collateral cash deposit of 15,000 lei; collateral cash deposit of 75,000 lei.
- credit line with Libra Internet Bank, in amount of 5,000,000 lei committed at 30 June 2019, in amount of 0.01 lei.
- convention on the issue of bank guarantee letters, concluded with Libra Internet Banking, in amount of 10,000,000 lei, of which 7,369,480 lei committed at 30 June 2019.

Guarantee:

mortgage over the bank accounts opened in the name of the borrower with all Libra Internet Bank units.
mortgage on the receivables resulted from lease agreements for lots 13 and 15.
mortgage on the property - land and buildings on lots 13 and 15.

26 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Commitments (continued)

- Credit agreement OTP BANK, in amount of 12,000,000 of which 5,000,000 lei cash, uncommitted at 30 June 2018.
- non-cash credit line, OTP BANK ROMANIA, in amount of 10,800,000 lei, uncommitted at 30 June 2019.
  Guarantees:
  Mortgage on accounts being opened with OTP BANK
  Mortgage on receivables
  Land mortgage on the following lots: 1; 2; 3; 9; 18; 19; 21; 23-26.

The commitments from customers and tenants as letters of guarantee at 30 June 2019 amount to 651,091 according to contract terms.

Litigation

The disputes in which the Group is involved do not refer to such amounts that could affect its financial stability. The only exception, judging after the value of the claims of petitioner Hdroelectrica, is the file with number 13259/3/2015 on the docket of the last court (ICCJ). The first court rejected the petitioner's request, as also the court of appeal.

27. SUBSEQUENT EVENTS

On the date of preparing the report, the group management is not aware of events, economic changes or other uncertain factors that might significantly affect the revenues or liquidities of the group, other than those mentioned.

ADMINISTRATOR’S REPORT FOR THE 1ST SEMESTER OF THE YEAR 2019

Report date: 12 AUGUST 2019

Company’s name: Electromagnetica SA

Registered office: Calea Rahovei nr 266-268, Sector 5, Bucharest, post code 050912

Phone / Fax no.: **021 404 21 02/ 021 404 21 95**

Unique registration code: **414118**

Registration number with ORCTB: **J40/19/1991**

Regulated market: **Bucharest Stock Exchange, Sector of equity, stocks, Premium Category**

Market sign: **ELMA**

Number of shares: **676,038,704**

Nominal value: **lei 0.1000**

Share capital: **lei 67,603,870.40**

1. COMPANY PRESENTATION

Electromagnetica SA is a joint-stock company, with Romanian legal personality, with unlimited lifetime, being organized and operating pursuant to the Memorandum of Association and based on the Law no. 31/1991, republished in 2004 and amended by the Law no. 441/2006, Government Emergency Ordinance no. 82/2007 and Government Emergency Ordinance no. 52/2008, as well as in compliance with the Law no. 297/2004 on capital market and Law no. 24/2017 on issuers.

The company's share capital is Lei 67,603,870.40 divided in 676,038,704 ordinary, registered and dematerialized shares, registered in an electronic account in the register of shareholders maintained by Depozitarul Central SA. Pursuant to the company's Memorandum of Association, the main activity is the manufacture of instruments and appliances for measuring, testing, control and navigation (NACE code 2651).

Electromagnetica SA, as a trading company whose shares are admitted on a regulated market, has adopted the IFRS (International Financial Reporting Standard) starting with the financial year of 2012. The financial statements for the 1st semester of 2019 were prepared in accordance with the provisions of the Order of the Minister of Public Finance no. 2844/2016 for the approval of the Accounting Regulations compliant with the International Financial Reporting Standards adopted by the European Union.

1.1. Mission, vision, values

The **MISSION** of the senior management and of the employees of ELECTROMAGNETICA is to provide effective solutions based on new technologies for fully satisfying the customers and to reasonably met the expectations of all stakeholders by seeking and opening new paths in technology and business.

Our **VISION** for carrying out the mission we have undertaken is to develop mainly products and methods resulting from our own research – design activity. By its strategy, ELECTROMAGNETICA aims to expand in related sectors with a high growth potential ensuring the more effective use of the research and development resources and its technological facilities. The company also intends to maintain a high level of integration and flexibility of the production, to reinvest the profit, to finance its activity mainly from its own sources, to diversify its activity in a balanced manner, as well as to balance the risks.
The **VALUES** defining and permanently shaping the company's identity and organizational culture are:

- **Creativity:** we are innovative and strive to apply every time the latest technologies and the most suitable solutions;
- **Business ethics:** it represents the foundation of our business relationships, characterized by honesty, integrity, communication and mutual trust;
- **Collaboration:** we have a proactive approach with regard to the customer's needs, providing it with high-quality products and services that add value through direct and indirect long-term benefits;
- **Responsibility:** we act responsibly for the protection of the environment, the employees' safety, health and personal development, for the creation of a fair and competitive business environment, social and cultural development of the community;
- **Confidence**: we believe that teamwork, together with the use of our experience and resources, gives us the necessary strength for fulfilling our mission and sustainably developing the company;
- **Adaptability**: we permanently adapt to the demands of the market, looking for and discovering new opportunities, but constantly remaining focused on our customers' needs and expectations.

1.2. Description of the main activity

Electromagnetica has the following main business lines:

- **A. PRODUCTS AND SERVICES FOR ELECTRICAL NETWORKS AND INCREASING THE ENERGY EFFICIENCY**
- **B. ELECTRIC ENERGY PRODUCTION AND SUPPLY**
- **C. LEASING FACILITIES AND REAL ESTATE DEVELOPMENT**
- **D. VARIOUS PRODUCTS (electrical and electronic, railways safety traffic elements, plastic mass articles)**

Established in 1930, Electromagnetica it manufactures products of its own design, which are designed and developed by its research and development team, but also manufactures multiple injected metal and plastic subassemblies, electrical equipment, tools and molds on order basis.

As of 2010, the company developed its own designs for LED lighting fixtures and systems, currently reaching a wide range of products for public, industrial, commercial and residential lighting. The LED lighting products represent the largest share in Electromagnetica's production, the company being the main domestic producer.

The company owns an electromagnetic compatibility laboratory (RENAR accredited) where the performance of LED lighting devices and the lighting technology laboratory is evaluated and validated. LED lighting systems have also integrated the ENERGSys remote management system continuously developed by the company over the last 14 years, with applications in the field of electricity measurement (component of Smart-City type projects).

The electric energy is produced in the 10 micro-hydroelectric plants located in Suceava County; this is an activity related to the electric energy supply activity, Electromagnetica remaining one of the important suppliers on the competitive market.

It was further pursued to capitalize on the real estate potential of the company by arranging and letting the surplus spaces, at which important modernizations were made over the time.

The elements of railway traffic safety are products that have long been in the company's portfolio and have registered a significant increase in turnover, following the orders received from the companies that operate the railways infrastructure and the directly won tenders.

2. REVIEW OF THE ACTIVITY OF ELECTROMAGNETICA SA in the 1st semester of 2019 :

2.1. GENERAL EVALUATION ELEMENTS :

Ref. no	Specification		1st semester 2019	1st semester 2018
1	Total income (lei)	lei	126,810,108	175,759,371
2	Total expenses (lei)	lei	117,596,192	162,778,840
3	Gross profit (lei)	lei	9,213,916	12,980,531
4	Gross profit rate	%	7,27	7,39
5	Net profit	lei	8,160,001	10,781,326
6	Net profit rate	%	6,43	6,13
7	Current liquidity	%	204	165
8	Patrimonial solvability	%	82	81
9	EBITDA	lei	9,755,914	18,178,530
10	EBITDA margin	%	7,69	10,34
11	EIBT	lei	4,817,332	13,239,948
12	EIBT margin	%	3,80	7,53
13	ROE	%	2,40	3,30
14	Period of collection of receivables	days	112	125
15	Period of payment of suppliers	Days	95	68

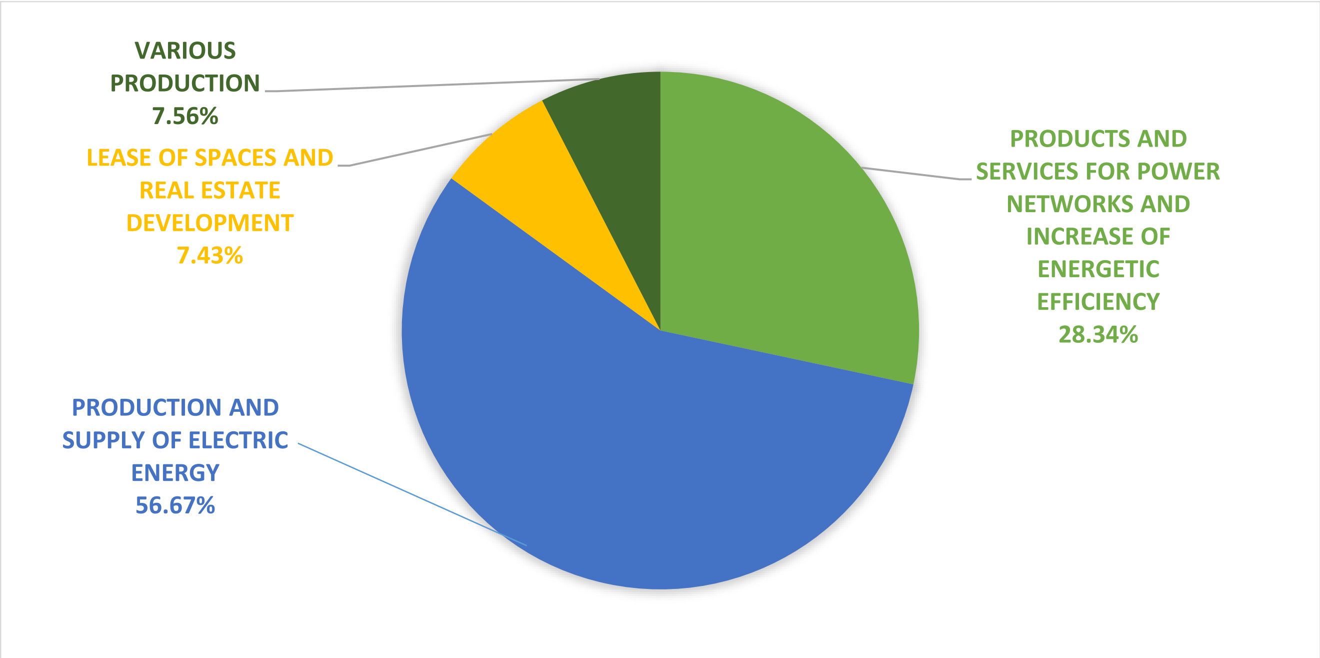
The company obtained profit, recording an increasing gross (7.27 %) and net (6.43 %) profit rate, similar to the rates obtained during the previous year. At the same time, the solvency increased slightly up to 82%, thus being maintained at a very good level.

The debt collection time decreased by 13 days, while the supplier payment time increased significantly by 27 days, thus contributing to the improvement of the cash flow.

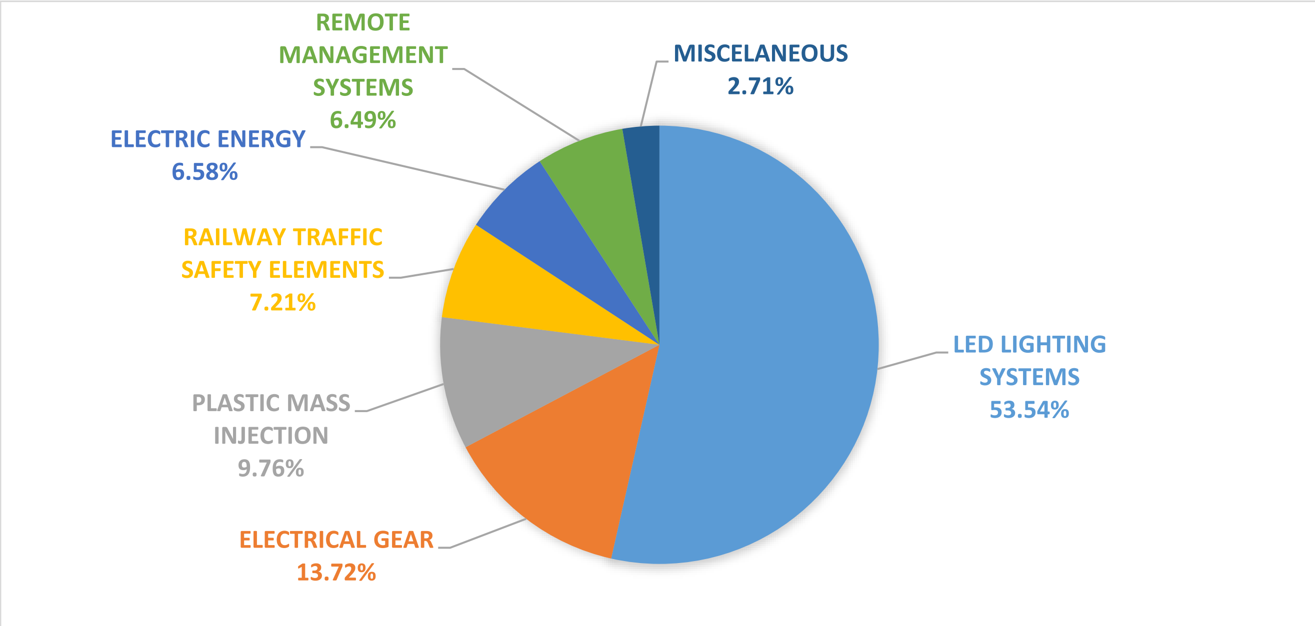
2.2. ASSESSMENT OF THE SALES ACTIVITY:

The distribution of the LED lighting fixtures and systems on the market is mainly carried out directly by the company through the specialized division within the commercial directorate. The performance of an increased number of turnkey projects ensured the sale of a higher number of products and services. A priority for 2019 is to obtain a balanced structure of the production of LED lighting fixtures by raising the number of lighting products for the commercial and office use to the level of those for public lighting.
The export is traditionally supported by low voltage electrical equipment and a large part of the plastic injection production. During the next period, the production of plastics shall be gradually directed towards the highly-complex products, a change that leads to an increase in profitability.
The electric energy production and supply activities are exclusively carried out on the domestic market.
Regarding the assurance of medium and long term sales, we mention that the average term of the leasing agreements is approximately 2 years, the term of electric energy supply agreement is 1 year, while the production is generally carried out on the basis of short-term orders, except for remote management systems that are contracted annually. The term of the sale agreements related to the LED lighting systems through supplier credit is usually 5 years.

2.3. STRUCTURE OF THE TURNOVER



2.4. PRODUCTION ACTIVITY



2.5. PRODUCTS AND SERVICES FOR ELECTRICAL NETWORKS AND INCREASING THE ENERGY EFFICIENCY

2.5.1. LED lighting fixtures, systems and solutions

The production of LED lighting fixtures has an important share in the company's turnover (21%), being the most important element of the company's production activity (a share of approximately 53%).
The trend of 2019 is the provision of solutions allowing the permanent control of the light and monitoring of the electric energy parameters. LED lighting fixtures are integrated in modern lighting management systems consisting of the Energsys system, dimming system, video surveillance cameras adjusting the light depending on the car traffic and electrical vehicles charging stations.
The range of products covers the following fields:

- street lighting;
- commercial premises (supermarkets, commercial galleries, gas stations, warehouses, stands, parking lots, display cabinets, billboards);
- industrial facilities (industrial premises, warehouses, etc.);
- offices;
- public buildings (institutions, hospitals, schools);
- residential buildings.

The competitive advantage of the LED lighting equipment is due to its high efficiency (over 150 lm/w), long service life and low maintenance costs. Moreover, the LED lighting fixtures provide a high-quality light, are environmentally friendly and allow their integration in remote management systems.

2.5.2. Electricity tele-management Equipment

The EnergSys system was developed for the purpose of carrying out custom-made solutions, as requested by clients, in order to settle specific measurement and distribution issues in some areas, while also providing compliance with the requirements of RERA (Romanian Energy Regulatory Authority) orders on the implementation of Smart Measurement Systems (SMS) in Romania. Also, the focus was on extending the applications of the ENERGSys metering system, in rural areas with issues concerning electricity losses, as well as within urban/rural public lighting networks, by monitoring consumption at Flashpoints and the development, under the current system, of functions specific to Smart-City type platforms.

2.5.3. Electrical Gear

The production of low-voltage electrical gear is an element of continuity and stability within the export production, representing, in the 1st semester of 2019, over 62% of the total export. This product group recorded a sales growth of 14% on the 1st semester of 2018.

2.6. PRODUCTION AND SUPPLY OF ELECTRICITY:

Energy production is a field regulated by the RERA, with the company holding a production license since 2007. During the 1st semester of 2019, electricity production significantly outweighed the average of the previous years. Around 35% of green certificates needed for the energy supply were provided by the green certificates related to own energy production.

Income, during the 1st semester of 2019, recorded an 80% growth on the similar period of 2018, following abundant rainfall.

The electricity supply business is regulated by the RERA. The company holds a supply license since 2001, and renewed in 2013 based on the provisions of the new energy law (L123/2012) for an additional 10 years. In the 1st Semester of 2019, the revenues from the activity of electricity supply decreased compared to the 1st Semester of 2018, the main causes being the constraints of the centralized energy purchase with less and more expensive offers, giving-up to the clients who present risks of non-payment of the invoices and adaptation to legislative changes (e.g. GEO 114 / 2018 - with the introduction of 2% contribution of the turnover obtained from energy transactions)

2.7. LETTING OF SPACES AND REAL ESTATE DEVELOPMENT

Electromagnetica managed around 33,000 sqm. of letting spaces in Bucharest, and 3,500 sqm. in the Varteju locality, Ilfov County. On 30.06.2019, for the headquarters in Calea Rahovei 266-268, the average occupancy rate was 97.77%, with the average letting price at Euro 7.03/sqm. For spaces in the Varteju commune (Magurele), the occupancy rate was 100%, with the average letting price at Euro 2.03/sqm. On 30.06.2019, the configuration of letting spaces, by destination, was as follows:

Ref. No.	Destination of Spaces to Let at Headquarters	% Share	Destination of Spaces to Let in Varteju	% Share
1	Offices	47.18	Offices	3.30
2	Warehouses	26.24	Warehouses	28.27
3	Production	16.44	Production	47.50
4	Service Provisioning	10.14	Service Provisioning	20.93

The real estate development and letting business recorded a growth of around 5% on the same period of the previous year, as a result of the degree of letting and the Euro /RON exchange rate with a favourable progress on 2018. Income from the letting business shall thereinafter remain under pressure, considering the limitation of business of some tenants or their migration towards spaces with additional facilities. The office market becomes more and more competitive, not only in the north side of the capital, but also in our area of letting.

There is a slight increase in office letting spaces in favour of those for service provisioning or warehousing, with office tenants starting to increase their expectations with regard to comfort levels. The high level of deliveries on the office market shall lead to an outweighing of the office demand in Bucharest, thereby engaging a potential decrease in occupancy levels, particularly for older buildings or those located in less accessible areas. They will require investment in refitting or even increase the occupancy level against the profit margin, in order to stay in the race along with the new generation of buildings, mostly green ones, with state-of-the-art equipment and excellent links to public transport, particularly to the subway.

2.8. INVESTMENTS:

During the 1st semester of 2019, investment worth Euro 232,000 were carried out at the Electromagnetica Business Park, considerably lower than the investment made during the same period of 2018 (Euro 412,000), carried out particularly in technological equipment. As for micro-hydropower plants

located in the north of the country (the Radauti Hydropower Plant), small maintenance equipment purchases were made, worth around Euro 8,200.
Investments were carried out from own funds.

2.9. HUMAN RESOURCES:

During the 1st semester of 2019, the structure of the staff showed a slight decrease with regard to the average number of employees, from 479 at the end of 2018, to 467 on 30 June 2019.
The number of university-graduate employees was steady on 2018, with around 35% of the total number of employees. The other part of employees consists of 34.5% college-graduate staff, 4.5% with technical educational background and 26% of staff with professional and qualification studies.
The training of company staff was carried out according to legislative amendments and any novelties occurred in the industry where Electromagnetica is active, thereby aiding them in improving their professional performance. During the 1st semester of 2019, most of the focus was on authorizing and re-authorizing of certain employees operating within regulated business."

3. ELEMENTS OF UNCERTAINTY:

- amount of orders for the internal market and export, which makes medium- and long-term production less predictable;
- local market dynamics with regard to LED lighting fixtures and the competition posed by import products;
- high volatility of prices on the energy market and constraints regarding the centralized energy purchase;
- amount of rainfall, with a direct impact on the own energy production;
- the term for recovery of receivables; Upon an ever-increasing competition on all markets, payment terms have become less favourable for sellers/suppliers.
- the risk of default pertaining to some clients; Electromagnetica is trying to mitigate such risks by analysing partners (including via the RISCO partnership), before the execution, as well as during the performance of agreements
- exchange rate, material imports, etc.

4. OTHER IMPORTANT EVENTS

During the first 6 months of the year, no specific events occurred, either on the production – sale level, or in relation to shareholders / management or the securities market which may have had an impact on the company business. All relevant events were reported according to the rules to the Financial Supervisory Authority (FSA) and the Bucharest Stock Exchange (BSE) (e.g. award of dividends, progress of important disputes).
On 22.04.2019, the General Ordinary Shareholder's Assembly (GOAS) of Electromagnetica took place, where, among others, the 2018 individual and consolidated financial statements, allocation of the amount of Lei 2,704,155 for payment of dividends (i.e. Lei 0.004/share) and the 2019 income and expense budget were approved.
Beginning with 03.06.2019, Electromagnetica grants dividends for 2018 at a unit price of Lei 0.004/share.

5. ECONOMIC AND FINANCIAL STATEMENT OF ELECTROMAGNETICA SA

5.1. FINANCIAL POSITION

	30 June 2019	31 December 2018
ASSETS		
Non-current assets		
Tangible assets	283,324,899	284,669,256
Investment property	4,709,859	4,709,859
Intangible assets	504,259	702,025
Investments in related entities	3,967,606	3,967,606
Other long-term non-current assets	20,299,098	20,495,344
Total non-current assets	**312,805,720**	**314,544,090**
Circulating assets		
Inventories	19,352,338	17,183,417

	30 June 2019	31 December 2018
Trade receivables	48,603,291	41,275,588
Cash and cash equivalents	28,192,188	29,162,314
Other current assets	3,966,302	2,950,187
Total current assets	**100,114,120**	**90,571,507**
Total assets	**412,919,840**	**405,115,597**
EQUITY AND LIABILITIES		
equity		
Share capital	67,603,870	67,603,870
Reserves and other equity	178,274,640	177,706,613
Retained earnings	93,605,922	88,933,829
Total equity attributable to company's shareholders	**339,484,432**	**334,244,312**
Non-current liabilities		
Trade payables and other liabilities	2,608,318	1,311,019
Investment subsidies	4,491,916	4,573,525
Deferred tax liabilities	17,341,503	17,782,339
Total non-current liabilities	**24,441,737**	**23,666,883**
Current liabilities		
Trade payables and other liabilities	45,625,730	43,092,649
Investment subsidies	163,219	163,219
Provisions	2,327,922	3,913,666
Current income tax liabilities	876,799	34,867
Total current debts	**48,993,671**	**47,204,402**
Total liabilities	**73,435,407**	**70,871,285**
Total equity and liabilities	**412,919,840**	**405,115,597**

The comparative analysis of balance sheet elements showed the following:

Assets have increased by 1.93%, particularly as a consequence of increases in current assets by 10.54%. Trade receivables have gone up by 17.75%, such increase contemplated by continuing the trade policy on supplier credit sales. Own equities have recorded a 1.57% increase following the gain on the period.

Within the "cash and cash equivalents" box, the amount of Lei 10,104,418 stands for limited cash, liquidities submitted with banks for securing some liabilities (cash-collaterals).

5.2. THE INDIVIDUAL LOSS AND PROFIT OUTCOME IS AS FOLLOWS:

	30 June 2019	30 June 2018
Revenues	108,845,151	151,697,371
Investment income	833,770	36,923
Other net income and expenses	3,497,912	2,476,320
Variation of the stock of finished products and pending production	10,565,451	10,454,887
Own work capitalized	380,417	277,016
Raw materials and consumables used	(73,672,919)	(114,158,762)
Employee-related expenses	(18,299,198)	(15,162,956)

	30 June 2019	30 June 2018
Expenses related to depreciation and impairment	(5,171,566)	(4,938,582)
Other expenses	(17,387,678)	(17,225,355)
Financial expenses	(377,425)	(476,330)
Profit before tax	**9,213,916**	**12,980,531**
Income tax	(1,053,915)	(2,199,205)
Profit of the period	**8,160,001**	**10,781,326**

The net profit decreased by 24% compared to the previous year, the result of the period being influenced also by the following factors:

- The delay in publishing the tender procedures and the results of the tenders in which it participated, as well as the fact that Electrica has not yet put in tendering works related to the investment program undertaken for counters and remote management systems, have negatively influenced the unlicensed activities.
- Constraints in the wholesale market of electricity, including the rapid increase of the price of the purchased energy (in the context of the increase of the price of carbon certificates) and the appearance of legislative changes such as GEO 114 / 2018 which introduced the 2% contribution for the turnover obtained from the transactions with energy, led to a decrease in the profitability of the supply activity.

It is worth mentioning that the objectives assumed through the budget were met in the 1st semester.

5.3. CASH –FLOW

	30 June 2019	30 June 2018
Net cash used in operating activities	1,354,660	6,984,428
Net cash used in investing activities	551,769	(1,015,311)
Net cash used in financing activities	(2,876,555)	0
Net cash and cash equivalents (decrease)/increase	(970,126)	5,969,117
Cash and cash equivalents at beginning of period	29,162,314	16,362,057
Cash and cash equivalents at the end of period	28,192,188	22,331,174

Within the net cash used in funding activities, we may notice the amount of Lei 2,704,155, to be shared as dividends.

5.4. LOAN FACILITIES

They were used a lot less, compared to the 1st Semester of 2018 (around 12.2%) and were fully reimbursed.

5.5. AFFILIATED PARTY TRANSACTIONS

The relationship between Electromagnetica – parent-company and the group companies sees the same agreements being carried out, which strictly refer to the provision of different services for the parent-company as for the previous years.
With the application of IFRS16 starting from 1 January 2019, with regard to letting agreement between Electromagnetica and Procetel, or Electromagnetica Goldstar, respectively, the accounting regime is different from previous years. Assets, as well as debt were recorded on the rights to use the assets in leasing.

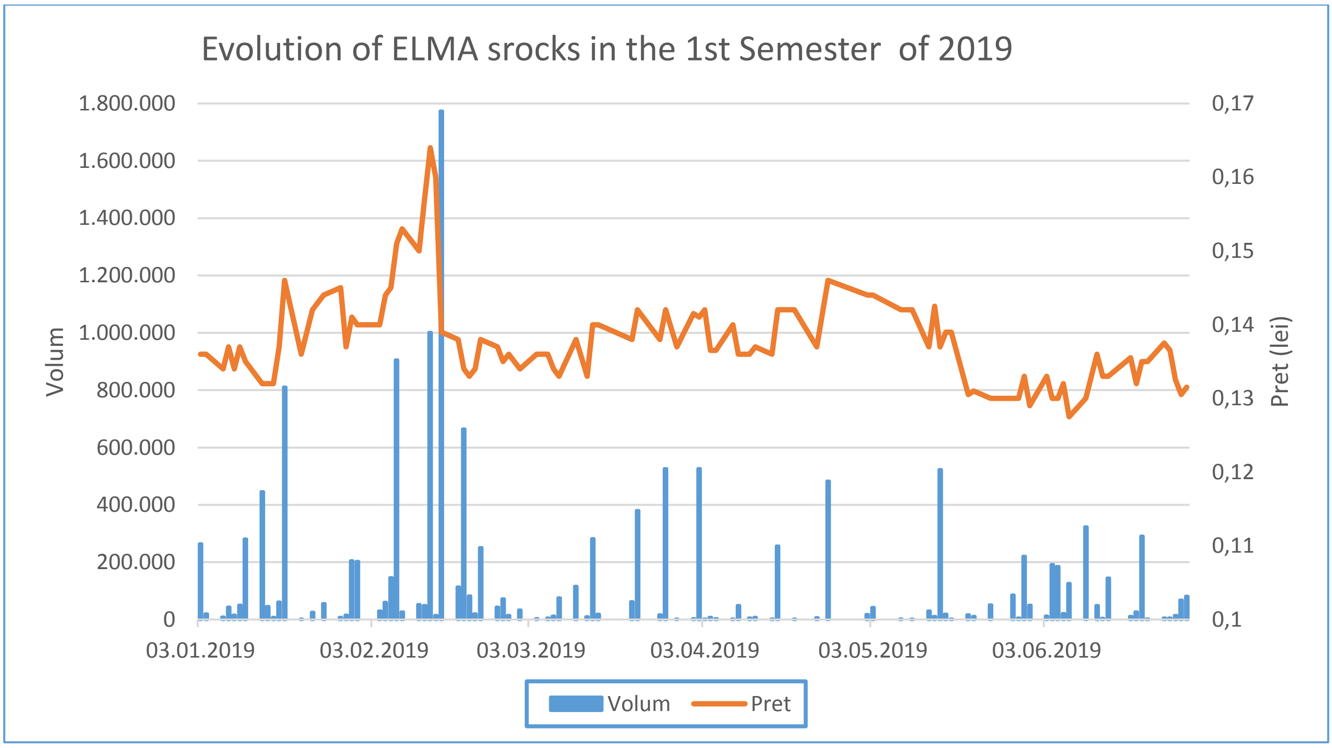
6. THE SECURITIES MARKET

Electromagnetica is listed on the Bucharest Stock Exchange under the Premium category, where transactions are carried out with the following features:

Market sign: ELMA
Ordinary, registered, uncertified shares
Number of shares issued: 676,038,704
Nominal value: Lei 0.1000
Share capital: Lei 67,603,870.40
ISIN Code: ROELMAACNOR2
LEI Code: 254900MYW7D8IGEFRG38

ELMA shares are part of the stock market's indices: BET BK, BET XT, BET XT-TR, BETPlus.

During the 1st semester of 2019, shares amounting to 2% of the total shares have been traded, thereby amounting to 2.76% of the company's capital, at an average price of Lei 0.1395/share. The reference price fluctuated between a minimum of Lei 0.1275 lei/share and a maximum of Lei 0.1640 lei/ share. No significant transactions were recorded.



7. INFORMATION ON THE CONSOLIDATED OUTCOME:

During the 1st semester of 2019, no changes occurred in the interests held by Electromagnetica at its subsidiaries (Electromagnetica Goldstar SRL, Procetel SA, Electromagnetica Fire SRL and Electromagnetica Prestserv SRL) or their management structures.

The companies controlled by Electromagnetica have a reduced influence on the gross profit subsequent to consolidation, as the transactions they undertake are mostly with the parent-company.

	Group	Parent company		Group	Parent company	
	30 June 2019		%	31 December 2018		%
Non-current assets	319,645,953	312,805,720	97.86	321,851,268	314,544,090	97.73
Current assets	105,563,035	100,114,120	94.84	95,887,635	90,374,907	94.25
Equity attributable to the company shareholders	350,180,361	339,484,432	96.95	345,377,260	334,224,312	96.78
Non-current liabilities	25,400,082	24,441,737	96.23	24,625,228	23,666,883	96.11
Current liabilities	49,386,709	48,993,671	99.20	47,485,965	47,007,802	98.99
Profit before tax	8,804,104	9,213,916	104.65	7,672,515	8,000,050	104.27
Profit of the period	7,737,912	8,160,001	105.45	4,456,343	4,823,198	108.23

8. PERSPECTIVES

We expect that in the second semester of 2019 the energy production and supply activities evolve similar to those in the first semester.

Regarding the perspectives of the unlicensed activity, increase of the turnover for the sales of lighting devices and the railway traffic safety elements, a stable continuation of the turnover for the real estate / administrative sector, as well as for the export.

9. CALENDAR OF FINANCIAL REPORTING FOR 2019:

14 August 2019: Publication of the financial results – 1st quarter 2019;

15 November 2019: Publication of the quarterly financial results – 3rd quarter 2019

NOTE:

1. The Directors' Report was prepared according to the art. 65 of the Law 24/2017 and the art. 223 of the Regulations of the Financial Supervisory Authority no. 5/2018.
2. The individual and consolidated financial statements of Electromagnetica SA for the 1st semester of the year 2019, prepared according to the national applicable regulations are not audited.

Eugen Scheusan,
General Manager

Cristina Florea
Economic Manager

ANNEX TO THE ADMINISTRATORS' REPORT FOR THE 1ST HALF-YEAR OF 2019

This annex completes and describes section 4 „OTHER IMPORTANT EVENTS" of the „**Administrators' Report for the 1st Half-Year of 2019"** (page 7). The events described below were communicated each time to the Stock Exchange and ASF:

BVB PUBLISHING DATE	REFERENCE	DETAILS
14.02.2019	Litigation	In the case file 3970/2/2018 regarding the annulment of Decision 77/2017 of the Competition Council, the Consiliului Concurentei, the Court of Appeal in Bucharest established a new hearing on 13.03.2019
15.02.2019	Publication of preliminary financial outcome 2018	Announcement on the availability and the financial outcome at: http://www.bvb.ro/FinancialInstruments/SelectedData/NewsItem/ELMA-Rezultate-financiare-preliminare-2018/9430E
21.03.2019	Proposals for granting dividends	The Board of Directors of ELECTROMAGNETICA SA submits to the approval of OSGM the following method of distribution regarding the net profit, amounting to 4,823,198 lei, recorded by the company in 2018: - legal reserve – 401,175 lei; - own sources of financing, considering the investments to be made in 2019 and the policies of selling by supplier credit of the lighting systems – 1,717,868 lei; - dividends – 2,704,155 lei Gross dividend/share due to the shareholders will be 0.004 lei/share
21.03.2019	Announcement of the annual General Shareholders Meeting	Notice of the Ordinary General Shareholders Meeting of ELECTROMAGNETICA SA on April 22nd / 23rd, 2019. NOTICE TO ATTEND OGSM ELECTROMAGNETICA FOR APRIL 22/23, 2019
21.03.2019	Termination of the mandate of Production Manager	Termination upon request, the request was acknowledged in the CA 20.03.2019
29.03.2019	Litigation	Case file 3970/2/2019. Bucharest Court of Appeal – 8th Section of the Contentious Administrative and Fiscal postponed the delivery of the sentence on 10.04.2019.

08.04.2019	Meeting with investors and analysts – Presentation of financial oucome 2018	ELECTROMAGNETICA SA informs that the meeting for the presentation of the financial outcome for 2018 will be held on April 12th, 2019. The meeting will take place between 10:00 – 11:00 at the company's head office in Bucharest, sector 5, Calea Rahovei nr. 266-268, Sala Consiliu, ground floor.
11.04.2019	Litigation	In the case file 3970/2/2018, Bucharest Court of Appeal – the 8th Section of the Contentious Administrative and Fiscal ordered to postpone the ruling until 24.04.2019. The action is brought before the court along with the merits of the case. Delivered on 10.04.2019, and made available to the parties by the registry of the court, as per Art. 396 paragraph 2 NCPC.
22.04.2019	Holding of the Ordinary GSM	
23.04.2019	Publishing of the Resolution of the Ordinary GSM	Available at : http://www.bvb.ro/FinancialInstruments/SelectedData/NewsItem/ELMA-Hotarari-AGA-O-22-04-2019/FAB23 It also includes the approval of the individual and consolidated financial statements
24.04.2019	2018 Annual Report	Publishing the individual and consolidated financial statements in English and Romanian Available at: http://www.bvb.ro/FinancialInstruments/SelectedData/NewsItem/ELMA-Raport-anual-la-31-12-2018/3168D
25.04.2019	Litigation	In case file 3970/2/2018, the 8th Section of the Contentious Administrative and Fiscal ordered to postpone the ruling until 08.05.2019. The action is brought before the court along with the merits of the case. Delivered in 24.04.2019, and made available to the parties by the registry of the court, as per Art. 396 paragraph 2 NCPC.
09.05.2019	Litigation	In case file 3970/2/2019, the 8th Section of the Contentious Administrative and Fiscal rejected the action on 08.05.2019 for lack of grounds
10.05.2019	Agent appointed for the payment of dividends 2018	The Board of Directors appointed CEC BANK SA as the payment agent for the dividends of 2018, as per the applicable regulation framework.
10.05.2019	Announcement on the payment of dividends 2018	Publishing the procedure for the distribution of dividends granted by Electromagnetica SA for the 2018 fiscal year.
13.05.2019	Announcement on the availability of the report for the 1st quarter of 2019	Quarterly report on the financial outcome as at March 31st, 2019, available at the company's head office in Bucharest, Calea Rahovei nr 266-268, sector 5 and on-line on the website www.electromagnetica.ro (http://electromagnetica.ro/), in section Company/Investors/Financial Info/2019, starting on May 15th, 2019.
15.05.2019	Publishing of the financial outcome for the 1st	Available at :

	quarter of 2019	http://www.bvb.ro/FinancialInstruments/SelectedData/NewsItem/ELMA-Rezultate-financiare-trim-1-2019/EAAC0

Eugen Scheusan,
General Manager

Cristina Florea
Economic Manager