

ELECTROMAGNETICA SA

Semestrial Report

of the Board of Directors

under Regulation no. 1/2006 of the National Securities Commission

Unaudited interim financial statements

for the six month-period ended on 30 June 2016

12 August 2016

Identification data

Date of the report: 12.08.2016
Company name: SC Electromagnetica SA
Registered office: 266-268 Calea Rahovei Street, District 5, Bucharest
Telephone/fax: tel 021.404.2102, fax: 021.404.2195
Sole registration code: 414118
Trade Register no.: J40/19/1991
Subscribed and paid capital: 67,603,870.40 lei
Regulated market: Bucharest Stock Exchange, Shares, Category I
Stock symbol: ELMA

Financial statement auditing

The individual and consolidated financial statements of Electromagnetica SA for the first six months of 2016, prepared in accordance with the applicable national regulations have not been audited.

Declaration regarding the perspectives

The forecasts and estimations of the company management are expressed in relation to the current ones and subject to certain risks and uncertainty factors which in future might change the perspectives of the financial results and achievements of the company.

1. Economic and financial standing of Electromagnetica SA

a) **The financial position for the first semester of 2016** is the following:

- lei -

	30 June 2016	31 December 2015
ASSETS		
Total non-current assets	229,843,698	231,686,217
Current assets, of which		
Inventories	13,085,374	13,497,381
Trade receivables	53,891,381	54,455,664
Cash and cash equivalents	11,806,221	13,890,488
Total current assets	81,767,816	85,177,732
Total assets	311,611,514	316,863,949

	<u>30 June 2016</u>	<u>31 December 2015</u>
EQUITY AND LIABILITIES		
Total equity attributable to company shareholders	265,146,958	260,242,265
Total non-current liabilities	8.674.222	9,779,106
Total current liabilities	37,790,334	46,842,578
Total equity and liabilities	311,611,514	316,863,949

The following conclusions can be drawn from the above information:

As a whole, the non-current assets decreased by 0.8% in the first semester of 2016, as a result of depreciation of buildings, technological equipments, appliances and machinery used for the production activity, their value exceeding the non-current asset inputs at the same time with an increase of intangible assets and other non-current assets. In the first semester of the year, there were tangible asset inputs resulted from investments in the modernization of technological manufacturing processes as well as intangible asset inputs representing licenses. The investments were made from own financing resources.

The total of the current assets decrease by 4% as compared to the beginning of the period, under the influence of the decreasing cash levels, inventories and trade receivables. The cash levels at the end of the first semester of 2016 decreased by 15% as compared to the beginning of the year, mainly as a result of a higher rate of contracting through supplier credit.

A slight increase of 1.88% was recorded in equity, resulting from the positive result achieved in the first semester.

At 30.06.2016, the company had no long-term loans contracted with any banking institution. The other long-term liabilities maintained at a low level, which was below the level recorded at the end of 2015.

The current liabilities decreased by 19%, due a reduction of the trade payables. Note that the fine imposed on the company by the Competition Council, provisioned at the end of 2015, was recorded as "*Other debts*" at 30.06.2016.

The current liquidity increased in the first semester of 2016, up to 216%, a sufficient level for the company business to be carried out in good conditions.

b) The profit and loss statement and other elements of the comprehensive income of the company for the first half of 2016 is the following:

	<u>6-month period ended on 30 June 2016</u>	<u>6-month period ended on 30 June 2015</u>
Revenues	111,465,495	217,764,883
Revenues from investments	910,616	1,165,432
Other net revenues	2,526,302	2,415,474
Variation of finished product inventories and production in progress	7,440,417	6,811,726
Work performed and capitalized	881,924	595,313
Raw materials and consumables used	(78,110,072)	(179,923,764)
Personnel expenses	(15,740,161)	(17,052,960)

	6-month period ended on 30 June 2016	6-month period ended on 30 June 2015
Expenses with depreciation and impairment loss	(4,957,468)	(4,609,436)
Other net expenses	(19,005,139)	(27,217,957)
Financial costs	(326,788)	(474,626)
Profit/(Loss) before tax	5,085,126	(525,915)
Corporation tax	(216,228)	(89,757)
Profit/(Loss) for period	4,868,898	(615,672)
Comprehensive income for period	4,904,992	(615,672)
Basic/diluted earnings per share	0.0073	(0.0009)

The elements which influenced the profit in the first semester of 2016 were:

- 6% higher production volume, 3% higher incomes from renting
- the positive dynamics of the product groups made by Electromagnetica.
- The electricity supply business underwent a resizing process starting from 2015, a process which continued in the first semester 2016.

No business segment was sold or stopped by the company during the first semester of 2016 and no such changes are estimated.

The EBIT margin was significantly improved up to 3.7%, in a context where, following the restructuring of the electricity supply business, the turnover fell by half and the share of the activities with different profit margins in the income structure was balanced. The EBITDA margin reached the level of 7.69% in the reporting period.

Dividends. By resolution adopted by the Ordinary General Meeting of Shareholders (AGOA) on 21 April 2016, the company did not distribute dividends. The contract with the Central Depository for the distribution of dividends for the previous years (2010-2014) was extended until 30.11.2016. The dividends remained unclaimed from the previous years are made available to shareholders who can claim and receive them from the BRD bank agencies or from the Central Depository, by bank transfer.

Dividends not claimed by shareholders at 30 June 2016:

	2014	2013	2012	2011	2010	Total
Gross dividend/share (lei)	0.004	0.004	0.004	0.004	0.0044376	
Net dividend not claimed, balance at 31.12.2015 (lei)	169,626	163,215	152,807	151,504	166,993	804,146
Payments January-June 2016 (lei)	3,763	4,059	3,837	3,728	3,899	19,287
Net dividend not claimed, balance at 30.06.2016 (lei)	165,863	159,156	148,970	147,776	163,094	784,859

c) cash flow

	6-month period ended on 30 June 2016	6-month period ended on 30 June 2015
<i>Net cash (used in)/generated from operating activities</i>	(1,799,375)	(10,132,074)
<i>Net cash from investment activities</i>	(265,605)	(970,017)
<i>Net cash used in financing activities</i>	(19,287)	6,224,555
<i>Cash and cash equivalents net decrease</i>	(2,084,267)	(4,877,536)
<i>Cash and cash equivalents at beginning of period</i>	13,890,488	28,226,288
<i>Cash and cash equivalents end of period</i>	11,806,221	23,348,752

As far as the cash flows are concerned, the following should be specified:

- The operating activity recorded a deficit of 1.8 million Lei at the end of the reporting period.
- It was necessary to access credit lines to a broader extent than in the same period of 2015. Until 30.06.2016, the withdrawals from credit lines were fully repaid.
- During the first semester of 2016, the volume of investments was reduced.

2. Analysis of the business operation of Electromagnetica SA

2.1. Description and analysis of trends, elements, events or uncertainty factors that affect or could affect company liquidity

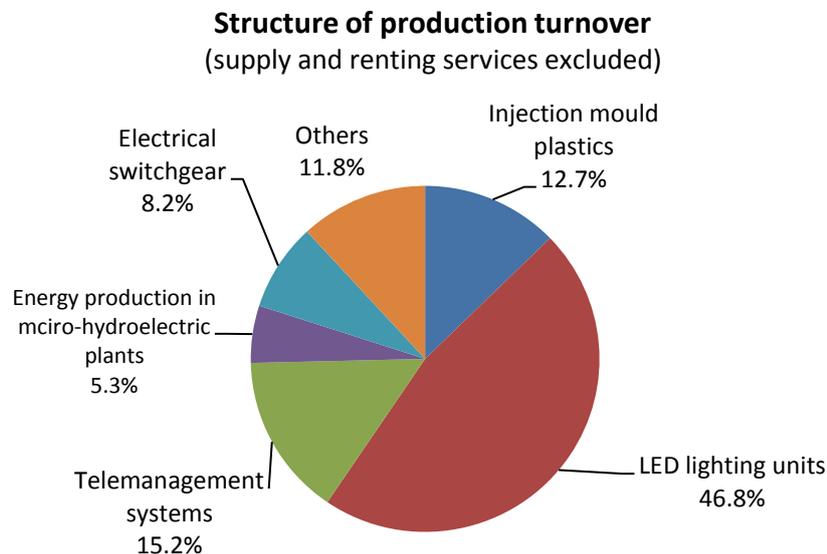
The company business is focused on the energy sector, through the following activities: electricity supply, production of LED lighting systems (for energy efficiency improvement), manufacture of power distribution and metering equipment and production of electricity from renewable sources in the 10 micro-hydroelectric plants (production which benefits from green certificates). The production with a large export share is also a priority for the company, i.e. low voltage switchgear, test equipment and tools and moulds, injection mould plastics, steelwork, various subassemblies. The aforementioned are supplemented by other industrial products and services for the domestic market, among which the production of railway safety systems and the renting and utility supply services.

In the last semester the increasing trend of the production share in the total turnover, which reached 43% as a result of the combined effect of the increased production volume (+6%), but especially of the contraction of the electricity supply business (-65%). As a whole, the total turnover decreased by 48%.

The trends of each activity separately are described below:

Production activity

Production recorded an overall increase of 6.12%. Among the groups of products representing a large share, an increase was recorded for LED lighting units (16.2%) and injection mould plastics (11.9%) while meters and telemanagement systems recorded a decline of 17%. The other categories had mixed developments.



In terms of sales markets, the sales in the domestic market had a significant increase. At the same time, exports suffered a decline as a result of fewer orders for moulds, switchgear and others.

The electricity supply was carried out in a difficult market, still marked by a higher volatility of energy prices and an increased mobility of customers. Several measures were implemented for the externalization of balancing services, rigorous measures for restructuring the customer portfolio and for risk control. The turnover of the electricity supply business decreased by 65%. We believe that this trend of stabilization will continue, the restructuring of the supply business being largely completed.

The renting and utility supply services accounted for slightly increased revenues, namely by 3% as compared to the similar period of last year. Among the factors that influenced this increase, the strength of the euro and the increased employment rate up to 97% are worth mentioning. The rented spaces are located not only in buildings exclusively meant for renting, but also in mixed-use buildings, namely for production and renting.

The most important **uncertainty factors** are the following:

- the volume of export orders, which makes the medium- and long-term production less predictable;
- the high volatility of prices in the energy market;
- the level of precipitations, with a direct influence on our own electricity production;
- the dynamics in the development of the local market of LED lighting units and the competition of the imported products;
- duration of recovery of claims; around 26% of the claims of the company have a collection period of more than 1 year.

- the risk of insolvency appeared for certain customers;
- the exchange rate, the imports of materials etc.

2.2. Description and analysis of the effects of all current or expected capital expenditure on the company financial standing

The investments for the first semester of 2016 totalized 650 thousand Lei; this money was used for the purchase of technological equipment and the fitting-out of some buildings. The investments were made from the company's own funds. In comparison with the similar period of the previous year, the value of investments was smaller, as they were conditioned by the cash levels.

2.3. Description and analysis of any events, transactions, economic changes that significantly affect core earnings

As already outlined, the main change occurred in the revenue structure through a strong contraction, by 65%, of the activity of electricity supply as compared to the similar period of the last year. The new structure divides the revenues almost equally between production and services.

The changes of the legal framework of public procurement caused a short delay of the tendering, which was necessary for us to comply with the new rules. Insofar as the new provisions will change the behavior of the contracting authorities and bidders in the market, the company has to take action for adapting its offer to the new requirements and avoid a competitive disadvantage.

3. Changes with impact on the capital and management of Electromagnetica SA

3.1. Description of the circumstances in which the company could not fulfill its financial obligations during the respective period

Not applicable

3.2. Description of any change in terms of security holder rights issued by the company

Not applicable

4. Significant transactions

Not applicable

5. Information on consolidated results

In the first semester of 2016, there was no change in the interests of Electromagnetica in its subsidiaries (Electromagnetica Goldstar SRL, Procetel SA, Electromagnetica Fire SRL and Electromagnetica Prestserv SRL) or in their governing structures. The influence of subsidiaries on the consolidated result of the first quarter of 2016 remains insignificant. Their main indicators are shown below:

- Lei -

	30 June 2016			31 December 2015		
	Group	Parent company	%	Group	Parent company	%
Non-current assets	232,738,638	229,843,698	98.76%	234,691,061	231,686,217	98.72%
Current assets	86,183,891	81,767,816	94.88%	89,743,575	85,177,732	94.91%

	30 June 2016			31 December 2015		
	Group	Parent company	%	Group	Parent company	%
Equity	271,515,906	265,146,958	97.65%	266,734,891	260,242,265	97.57%
Long-term liabilities	9,316,845	8,674,222	93.10%	10,432,123	9,779,106	93.74%
Current liabilities	38,089,778	37,790,334	99.21%	47,267,622	46,842,578	99.10%
Profit before tax	5,015,899	5,085,126	101.38%	(698,469)	(525,915)	75.30%
Profit for period	4,748,269	4,868,898	102.54%	(834,845)	(615,672)	73.75%

The companies controlled by Electromagnetica have little influence on the gross profit after consolidation, as

EVENTS	DATE
Publication of the financial results – 1 st semester 2016	12 Aug 2016
Meeting with analysts	
Publication of quarterly financial results – 3 rd quarter 2016	15 Nov 2016

the transactions carried out by them are largely concluded with their parent company.

6. Financial reporting calendar for 2016

7. Signatures

Eugen Scheusan,
Chairman of the Board of Directors / Managing Director

Ilie Frasinianu
Economic Manager