

ELECTROMAGNETICA SA

SEPARATE 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 2018

UNAUDITED

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ELECTROMAGNETICA S.A.
SEPARATE PROFIT OR LOSS STATEMENT
AND OTHER COMPREHENSIVE INCOME
FOR THE 6-MONTH PERIOD ENDED ON 30 JUNE 2018
(all the amounts are expressed in RON, unless otherwise specified)

	Note	6-month period ended 30 June 2018	6-month period ended 30 June 2017
Revenues	19	151,697,371	97,684,978
Revenues from investments	19	36,923	429,525
Other net revenues and expenses	19	2,476,320	3,167,656
Variation in stocks of finished goods and work in progress	19	10,454,887	5,103,659
Work performed by entity and capitalized	19	277,016	1,149,972
Raw material and consumables used	20	(114,158,762)	(76,935,676)
Expenses related to employee	20	(15,162,956)	(17,134,640)
Expenses related to depreciation and impairment	20	(4,938,582)	(7,904,945)
Other expenses	20	(17,225,355)	(13,672,828)
Financial costs	21	(476,330)	(327,085)
Profit / (Loss) before tax		12,980,531	(8,439,385)
Income tax	22	(2,199,205)	(317,262)
Profit / (Loss) for the period		10,781,326	(8,756,647)
Other components of comprehensive income			
of which:			
other comprehensive income items that cannot be reclassified in the profit and loss account, of which:			
- Deferred tax recognized in equity	22	189,628	708,711
- Transfer of inflation adjustment into carried forward result		15,370,332	
- Inflation adjustment used for loss cover		(15,370,332)	
Comprehensive income for the period		10,970,954	(8,047,936)
Basic/diluted earnings per share	25	0.0159	(0.0130)

These separate financial statements were approved for disclosure by the management on 10 August 2018, by:

Eugen Scheuşan

Managing Director

Cristina Florea

Economic Manager

	Note	30 June 2018	31 December 2017
ASSETS			
Non-current assets			
Tangible assets	4	282,785,829	286,427,678
Real estate investments	5	4,555,912	4,555,912
Intangible assets	6	972,933	1,247,495
Investments in related entities	7	3,967,606	3,967,606
Other non-current assets	8	21,910,287	19,802,564

The attached Notes are an integral part of these separate financial statements

ELECTROMAGNETICA S.A.
SEPARATE PROFIT OR LOSS STATEMENT
AND OTHER COMPREHENSIVE INCOME
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(all the amounts are expressed in RON, unless otherwise specified)

Total non-current assets		314,192,566	316,001,253
Current assets			
Inventories	9	17,326,935	16,763,968
Trade receivables	10	46,086,929	40,417,745
Cash and cash equivalents	12	22,331,174	16,362,058
Other current assets	11	2,697,871	2,429,955
Total current assets		88,442,909	75,973,726
Total assets		402,635,475	391,974,979
EQUITY AND LIABILITIES			
Equity			
Share capital	13	67,603,870	67,603,870
Reserves and other equity components	14	166,195,351	182,561,233
Retained earnings	15	93,276,184	65,939,348
Total equity attributable to company shareholders		327,075,406	316,104,451
Non-current liabilities			
Trade liabilities and other debts	18	1,358,870	1,304,836
Investment subsidies	16	4,655,344	4,736,743
Deferred tax liabilities	22	15,871,172	16,088,691
Total non-current liabilities		21,885,386	22,130,270
Current liabilities			
Trade payables and other liabilities	18	49,818,083	39,319,304
Investment subsidies	16	163,219	163,219
Provisions	17	3,187,551	13,744,272
Current income tax liability		505,830	513,462
Total current liabilities		53,674,684	53,740,257
Total liabilities		75,560,070	75,870,527
Total equity and liabilities		402,635,475	391,974,979

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	Eugen Scheuşan Managing Director	Cristina Florea Economic Manager	
		6-month period ended 30 June 2018	6-month period ended 30 June 2017
		Note	
Cash flows from operating activities			
Cash receipts from customers		162,446,611	107,080,810
Payments to suppliers		(122,830,968)	(84,151,946)
Payments to employees		(14,875,075)	(17,154,622)
Other operating activities		(15,505,964)	(11,519,111)
Cash generated by/ (used in) operating activities		9,234,604	(5,744,869)
Interest paid		(15,448)	(25,575)
		(2,234,728)	(350,000)

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FOR THE 6-MONTH PERIOD ENDED ON 30 JUNE 2018
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Income tax paid				
Net cash used in operating activities		6,984,428		(6,120,444)
Cash flows from investing activities				
Acquisition of tangible assets		(1,055,912)		(2,930,691)
Receipts from sale of non-current assets		-		119,163
Interest received		40,601		4,788
Dividends received		-		424,830
Net cash used in investment activities		(1,015,311)		(2,381,910)
Cash flows from financing activities				
Cash proceeds from loans		37,930,156		32,044,350
Cash repayments of amounts borrowed		(37,930,156)		(31,752,412)
Dividends paid		-		(11,672)
Net cash used in financing activities		-		280,266
Cash and cash equivalents net increase/decrease		5,969,117		(8,222,088)
Cash and cash equivalents at beginning of period	12	16,362,057		17,822,290
Cash and cash equivalents at end of period	12	22,331,174		9,600,202

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Eugen Scheuşan
 Managing Director

Cristina Florea
 Economic Manager

ELECTROMAGNETICA SA
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE 6-MONTH PERIOD ENDED ON 30 JUNE 2018
(all the amounts are expressed in RON, unless otherwise specified)

	<u>Share</u>	<u>Retained</u>	<u>Revaluation</u>	<u>Other</u>	<u>Legal reserve</u>	<u>Deferred tax</u>	<u>Total equity</u>
Balance at 1 January 2018	67,603,870	65,939,347	103,319,691	61,372,490	34,400,651	(16,531,600)	316,104,451
Comprehensive income for the period							
Profit or loss for the period	-	10,781,326	-	-	-	-	10,781,326
Other components of comprehensive income							
Establishment of legal reserve	-	-	-	(649,027)	649,027	-	-
Transfer of reserve from revaluation into the carried forward result following amortization	-	1,185,178	(1,185,178)	-	-	-	-
Reversal of deferred tax recognized in reserves	-	-	-	-	-	189,628	189,628
Transfer of inflation adjustment into carried forward result	-	15,370,332	-	-	(15,370,332)	-	-
Total comprehensive income for the period	-	27,336,836	(1,185,178)	(649,027)	(14,721,305)	189,628	10,970,954
Transactions with shareholders recognized directly in equity							
Other equity items	-	-	-	-	-	-	-
Balance at 30 June 2018	67,603,870	93,276,183	102,134,513	60,723,463	19,679,346	(16,341,972)	327,075,406

The legal reserve decreased due to the 2017 loss cover, from the adjustment of the legal reserve calculated in compliance with IAS 29 with the implementation of IFRS (Note 14).

These separate financial statements were approved for disclosure by the management on 10 August 2018, by:

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

The attached Notes are an integral part of these separate financial statements

ELECTROMAGNETICA SA
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE 6-MONTH PERIOD ENDED ON 30 JUNE 2018
(all the amounts are expressed in RON, unless otherwise specified)

	<u>Share</u>	<u>Retained</u>	<u>Revaluation</u>	<u>Other</u>	<u>Legal</u>	<u>Deferred tax</u>	<u>Total equity</u>
Balance at 01 January 2017	67,603,870	82,540,235	106,439,479	57,044,643	34,400,651	(17,476,938)	330,551,942
Comprehensive income for the period							
Profit or loss for the period	-	(8,756,647)	-	-	-	-	(8,756,647)
Transfer of reserve from revaluation into the carried forward result following amortization	-	1,615,336	(1,615,336)	-	-	-	-
Reversal of deferred tax recognized in reserves	-	-	-	-	-	708,711	708,711
Transfer of net profit into reserves	-	(4,327,847)	-	4,327,847	-	-	-
Total comprehensive income for the period	-	(11,469,158)	(1,615,336)	4,327,847	-	708,711	(8,047,936)
Transactions with shareholders recognized directly in equity							
Other equity items	-	-	(22,497)	-	-	-	(22,497)
Balance at 30 June 2017	67,603,870	71,071,077	104,801,646	61,372,490	34,400,651	(16,768,227)	322,481,509

These separate financial statements were approved for disclosure by the management on 10 August 2018, by:

Eugen Scheuşan
Managing Director

Cristina Florea
Economic Manager

The attached Notes are an integral part of these separate financial statements

ELECTROMAGNETICA SA
EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS
AS OF 30 JUNE 2018
(all the amounts are expressed in RON, unless otherwise specified)

1. GENERAL INFORMATION

ELECTROMAGNETICA S.A. is organised under the laws of Romania. Electromagnetica was set up in 1930 and carries out activities in several sectors; the most important are:

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

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

- LED lighting systems
- electricity distribution and metering equipment
- electric, electronic, automotive subassemblies, etc.
- tools and dies
- metal and plastic subassemblies
- railway traffic safety equipment
- electricity from renewable sources (produced in small power hydroelectric plants)

The Company is headquartered in Calea Rahovei nr. 266-268 District 5 Bucharest. Electromagnetica is listed on the Bucharest Stock Exchange (symbol ELMA). The prices per share can be analysed as follows:

	January - June 2018	January - June 2017
- minimum price	0.1240	0.1700
- maximum price	0.1600	0.1940
- average price	0.1338	0.1826

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

	January - June 2018	January - June 2017
Average number of employees	494	593

These Separate Financial Statements have been prepared in compliance with IAS 34–Interim financial reporting for the 6-month period ended on 30 June 2018. The Company also prepares consolidated financial statements, as it holds investments in subsidiaries.

The details of the Company's investments in subsidiaries at 30 June 2018 are:

Name of subsidiary	No. of securities	Ownership and voting right percentage (%)	Value
Electromagnetica Golstar 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

The information about the object of activity and the general presentation of the subsidiaries is included in Note 24.

ELECTROMAGNETICA SA
EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS
AS OF 30 JUNE 2018
(all the amounts are expressed in RON, unless otherwise specified)

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 9 "Financial Instruments"**(in force for the yearly periods starting on or after 1 January 2018);
- **IFRS 15 "Revenues from Contracts with Customers"** and subsequent amendments (in force for the yearly periods starting on or after 1 January 2018);
- **Amendments to IFRS 2 "Share-based payment"** – Classification and evaluation of share-based payment transactions (in force for the yearly periods starting on or after 1 January 2018);
- **Amendments to IAS 40 "Real estate investments"** - **Real estate investments Transfers** (in force for the yearly periods starting on or after 1 January 2018);
- **Amendments to IFRS 1 and IAS 28 due to the "Improvements to IFRSs (2014-2016 cycle)"** resulting from IFRS annual improvement project (IFRS 1, IFRS 12 and IAS 28), mainly to remove any inconsistency and clarify formulations (amendments to IFRS 1 and IAS 28 to be applied for the yearly periods starting on or after 1 January 2018);
- **IFRIC 22"Foreign exchange transactions and advance compensations"** (in force for the yearly periods starting on or after 1 January 2018).

New standards and amendments to existing standards, which have been issued but not adopted yet

On the date of approval of these financial statements, the following new standards, changes of existing standards and new interpretations thereof have been issued, but not yet adopted:

- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment features with negative compensation (in force for the yearly periods starting on or after 1 January 2019),
- **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 19 "Employee benefits"**–plan for change, reduction and maintenance (in force for the yearly periods starting on or after 1 January 2019);
- **Amendments to IAS 28 "Investments in associates and joint ventures"** – Long-term interest in associates and joint ventures (in force for the yearly periods starting on or after 1 January 2019),
- **Amendments to various standards "Improvements to IFRSs (2015-2017 cycle)"** resulting from IFRS annual improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23), mainly to remove any inconsistency and clarify formulations (in force for the yearly periods starting on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over income tax treatments"**(in force for the yearly periods starting on or after 1 January 2019).

Initial application of the new amendments to existing standards in force, for the current reporting

ELECTROMAGNETICA SA
EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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2 APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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

- **IFRS 9 "Financial Instruments"**- adopted by EU on 22 November 2016 (in force for the yearly periods starting on or after 1 January 2018);
- **IFRS 15 "Revenues from Contracts with Customers"** and –amendments to IFRS 15 "Date of entry into force of IFRS 15" - adopted by EU on 22 September 2016 (in force for the yearly periods starting on or after 1 January 2018),
- **Amendments to IFRS 2 "Share-based payment"**- Classification and evaluation of share-based payment transactions - adopted by EU on 27 February 2018 (in force for the yearly periods starting on or after 1 January 2018),
- **IFRS 15 "Revenues from Contracts with Customers"** and Clarifications to IFRS 15 revenues from contracts with customers - adopted by EU on 31 October 2017 (in force for the yearly periods starting on or after 1 January 2018),
- **Amendments to IAS 40 "Real estate investments"** – Real estate investments transfers - adopted by EU on 14 March 2018 (in force for the yearly periods starting on or after 1 January 2018);
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (2014-2016 cycle)"** resulting from IFRS annual improvement project (IFRS 1, IFRS 12 and IAS 28), mainly to remove any inconsistency and clarify formulations - adopted by EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 apply to the yearly periods starting on or after 1 January 2018);
- **IFRIC 22 "Foreign exchange transactions and advance compensations"** adopted by EU on 28 March 2018 (in force for the yearly periods starting on or after 1 January 2018).

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

- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment features with negative compensation (in force for the yearly periods starting on or after 1 January 2019),

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,
- **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 19 "Employee Benefits"**– plan for change, reduction and maintenance (in force for the yearly periods starting on or after 1 January 2019);
- **Amendments to IAS 28 "Investments in associates and joint ventures"** - Long-term interest in associates and joint ventures (in force for the yearly periods starting on or after 1 January 2019),

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

- **Amendments to various standards "Improvements to IFRSs (2015-2017 cycle)"** resulting from IFRS annual improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23), mainly to remove any inconsistency and clarify formulations (in force for the yearly periods starting on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over income tax treatments"** (in force for the yearly periods starting on or after 1 January 2019).

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 9 "Financial Instruments"**; issued on 24 July 2014, whereby IASB replaces IAS 39 Financial Instruments: recognition and evaluation. IFRS 9 includes requirements for recognition, evaluation, impairment, derecognition, general hedge accounting notions.

Classification and evaluation – IFRS 9 introduces a new approach of the classification of financial assets, which has in view the characteristics of the cash flow and the business model where assets are held. This approach based on a single principle replaces the requirements of the basic IAS 39 rules. The new model also requires that a single model of impairment is applied to all financial instruments.

Impairment – IFRS 9 introduces a new model of impairment, the model of expected loss, which will impose the recognition in due time of the expected loss from credit. Practically, the new standard requires companies to record their expected loss from credit at the same time as the financial instrument is recognized and to recognize their expected loss over the entire lifespan of the instrument.

Hedge accounting – IFRS 9 introduces a totally changed model for hedge accounting, with improved descriptions of the risk management activity. The new model represents a significant review of hedge accounting, which aligns treatment of accounting with that of risk management activity.

Credit risk exposure accounting – IFRS 9 eliminates the volatility from profit or loss, which was caused by changes in the credit-related risk, from the debts for which fair value presentation has been opted for. This change in accounting means that the revenues, determined by the mitigation of a credit risk relating to such debts, are no longer recognized in the profit or loss.

- **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 15 "Revenues from Contracts with Customers"** and other future amendments (in force for periods starting from or after 1 January 2018) was issued by IASB on 28 May 2014 (on 11 September 2015 IASB postponed the entry into force until 1 January 2018). IFRS 15 specifies how and when revenues are recognized, but it also requires entities to provide more information to the users of their financial statements. This standard replaces IAS 18 – Revenues, IAS 11 – Construction contracts and a number of revenue-related interpretations. The implementation of this standard is mandatory for all the companies applying IFRS and for almost all the contracts with customers; the main exceptions are the leasing agreements, the financial instruments and the insurance contracts. The basic principle of this standard is that entities should recognize revenues, so that they could indicate the exact value of the transfer of goods or services toward customers (i.e. the payment) which the respective entity expects to receive. The new standard also includes improved descriptions of revenues, provides guidance for transactions which were not exhaustively approached before (e.g., revenues from services and amendments to contracts) and for contracts with multiple objects.

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

- **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.
- **Amendments to IFRS 2 "Share-based payment"** - Classification and evaluation for share-based payment transactions (issued by IASB on 20 June 2016; in force for periods starting from or after 1 January 2018). The Amendments contain requirements for the recognition of: (a) the effect of whether transactions fall within evaluation criteria for share-based payments with cash settlement; (b) the transactions with net settlement for the liabilities representing withholding tax; and (c) the change of terms and conditions which modify the classification of the transaction with share-based payment from cash settlement, to be settled through equity instruments.
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment with negative compensation, issued by IASB on 12 October 2017. The Amendments change the existing requirements of IFRS 9 regarding the rights of termination, to allow the measurement at the amortized cost (or, depending on the business model, at the fair value, through other components of the comprehensive income) even in the case of payments with negative compensation. In accordance with these amendments, the sign of prepayment value is not relevant, for example, depending on the interest rate prevailing at the time of termination, a payment can be made to the contracting party that makes the anticipated reimbursement. The calculation of this compensatory payment must be the same both for penalties on anticipated reimbursement and income from anticipated reimbursement.
- **Amendments to IFRS 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 19 "Employee Benefits"** – plan for change, reduction and maintenance, issued by IASB on 7 February 2018. (in force for the yearly periods starting on or after 1 January 2019). 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.
- **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.

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EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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2 APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- Amendments to **IAS 40 "Real estate investments"** – Real estate investments transfers, issued by IASB on 8 December 2016. The Amendments specify that an entity will transfer a real estate property to or from real estate investments when and only when there is evidence of a change of use. A change of use may take place where the real estate property fulfills or ceases to fulfill the definition of real estate investments. A change of the intentions of the management for the use of a real estate property itself is not evidence of a change of use. Furthermore, the Amendments specify that the list of evidence contained in point 57 was designated as a non-exhaustive list of examples instead of the previous exhaustive list.
- Amendments to various standards "**Improvements to IFRSs (2014-2016 cycle)**", issued by IASB on 8 December 2016. The Amendments to various standards, which result from IFRS annual improvement project (IFRS 1, IFRS 12 and IAS 28), mainly aim to eliminate inconsistencies and clarify formulations. The Amendments include: (i) elimination of short-term derogations mentioned in points E3-E7 of IFRS 1, because they reached their goal, (ii) clarification of the scope of IFRS 12, specifying that the presentation requirements in IFRS 12, except those in points B10-B16, apply to the interests of an entity, enumerated in point 5, which are classified as being held for sale, for distribution or as activities interrupted according to IFRS 5 "Non-current assets held for sale and Interrupted operations", (iii) clarification of options to measure at the fair value, through profit or loss, an investment in an associated entity or a joint venture which is held by an entity which is an organization with venture capital, or another qualified entity, available for each investment in an associated entity or joint venture based on investments, at initial recognition.
- 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 revalues its interest which was previously held 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).
- **IFRIC 22 "Foreign exchange transactions and advance compensations"** issued by IASB on 8 December 2016. The interpretation specifies that, for the purpose of establishing the exchange rate, the date of transaction will be the date of initial recognition of the asset of non-monetary prepayment or deferred tax liability. If there are several advance payments or receipts, a date of transaction is established for each payment or receipt.
- **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 Company were prepared in compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS") effective on the date of the Company report, i.e. 30 June 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.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and presentation currency

These separate financial statements are presented in RON, the operating currency of the Company.

Basis of preparation

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

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

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

The Company also prepares consolidated financial statements in accordance with IFRS adopted by the EU, which are available on the Company's website.

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 2018	Exchange rate at 30 June 2017
EUR	4.6611	4.5503
USD	4.0033	3.9857

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of professional estimations and rationales (continued)

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

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

The Company changes an accounting policy only if the change:

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

We present below a summary of the significant accounting policies applied to all the periods presented in the financial statements, except for the changes deriving from the new standards and amendments to standards with the date of initial application 1 January 2017 and presented in section 2.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

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 Company must prepare unobservable inputs based on the best information available under the given circumstances, which may include company own data.

Intangible assets

Initial measurement

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

Measurement subsequent to initial recognition

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

The Company 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 Company 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.

Tangible assets

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

The Company selected the **revaluation model** for the measurement subsequent to the initial recognition of tangible assets. According to the revaluation model, a tangible asset the fair value of which can be reliably measured should be carried at 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 Company opted to use the straight-line method as amortization method, which implies the systematic allocation of the amortization value over the entire economic life of the assets.

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

Tangible assets	<u>Duration (years)</u>
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 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. The proceeds from the sale of these assets are recognized as revenue in accordance with IAS 18 – Revenue.

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.

Real estate investments

Initial measurement

Real estate investment is initially recognized at cost according to IAS 40 – Real estate investments. The cost of real estate investments 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 Company selected the fair value model for the presentation of real estate investments in its financial statements. The real estate investments are not amortized, the gains or losses deriving from the changes in their fair value are included in the profit or loss of the period in which they occur.

Financial assets

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

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.

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

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

- a) power over the investee;
- b) exposure, or rights, to variable returns from its involvement with the investee;
- c) the ability to use its power over the investee to affect the amount of the investor's returns.

Interest on loans

The interest on the loans directly attributable to the purchase, construction or manufacture of an asset with long production cycle are capitalized until the asset is prepared for its predetermined use or sale. All the other costs related to loans are recognized as expenses in the profit and loss account for the period of their occurrence.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

The interest expenses are carried using the effective interest method. In the six-month period ended on 30 June 2018, respectively on 30 June 2017 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 Company uses the First In First Out (FIFO) method. The standard cost is used for inventory inflow and outflow of finished products. Based on the management accounting, the actual cost of the obtained products is determined at the end of each month.

Receivables and other like assets

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, adjustments for impairment are recorded at the level of the amount that cannot be recovered. Receivables are discarded following their collection or assignment to a third party. Current receivables can also be discarded by the mutual offset of accounts receivable and payable between third parties, under the law.

The receivables with expired collection time limits are discarded after the Company obtains the documents proving that all the legal steps to recover these receivables were taken.

The discarded receivables will continue to be tracked off-balance sheet.

Cash and cash equivalents

For the purpose of the preparation of the statement 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

Liabilities

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

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

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

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

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

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

Liabilities are presented at amortized cost.

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

The Company derecognizes a liability when the contractual obligations are performed, cancelled or expired.

If the goods and services supplied in relation to current activities were not invoiced but the delivery was made and their value is available, the obligation in question is recorded as a liability.

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

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

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

Sale of goods

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

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

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

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

Variable consideration

Some contracts with customers provide volume rebates, financial cuts, trade discounts or the right to return the goods for quality defects. Currently, the revenues gained from these sales are recognized based on the price specified in the contract, return net quantities and revenue decreases, trade discounts and volume rebates recorded based on accrual accounting, when a reasonable estimation of revenue adjustment can be made.

In accordance with IFRS 15, the estimation of the variable revenue is necessary to be made at the beginning of the contract. The revenues will be recognized insofar as a significant reversal of the cumulated value of the recognized revenues is unlikely to take place. Consequently, for those contracts for which the Company is not able to make a reasonable estimation of the reductions, the revenue will be recognized earlier than in the case where the return period ends or a reasonable estimation can be made. However, because the contractual periods for most contracts coincide with the calendar years for which the annual financial statements are prepared, and because the Company currently reports its annual revenues from contracts with customers net of adjustments, such as volume rebates or financial cuts, the impact on the result carried forward from the treatment of variable revenues following the adoption of IFRS 15 is not effective. At the same time, the cases of complaints for quality (rights to return) are isolated and, according to history, they are not material, so that the Company cannot make a reasonable estimation of such a reversal of revenues at the reporting date.

Impact on carried forward result

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

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

Recognition of revenues from distinct performance obligations

According to some delivery terms, the Company may provide services such as transportation to a specified destination beyond the moment of transfer of the control of goods to customers. IFRS 15 requires that an entity should keep records of each of the distinct goods or services as a separate performance obligation. The freight services could fall within the definition of a distinct service, but a full understanding of the commercial terms is necessary to ensure that this is the case. A performance obligation for transportation generally satisfies the performance obligation criteria over a period of time, and the revenues will be recognized during the transfer of goods to the customer. Otherwise, the performance obligation is considered fulfilled at a certain moment in time and the revenues would be recognized when the customer receives the goods.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

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

Performance obligations fulfilled in time

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

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

Performance obligations fulfilled at a specific time

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

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

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

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

Assessment of the progress in fulfilling a performance obligation entirely

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

Reasonable progress assessments

SC Electromagnetica SA 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

To assess the progress in fulfilling a future obligation, which is necessary, for example, in the contracts including a provision for placing into service or installation, SC Electromagnetica SA chose the method based on inputs, according to which revenues are recognized on the basis of inputs or of the efforts of the entity in fulfilling a performance obligation (e.g. consumed resources, number of hours worked, recorded costs, time elapsed or hours of use of machinery) as compared to the total inputs foreseen for fulfilling the respective performance obligation. If the inputs or efforts are distributed uniformly over the whole period of performance, the revenues can be recognized on a straight-line basis.

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

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.

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 individual obligations are settled at an amount equal to the best estimate of the amount necessary to settle the obligation.

Provisions are grouped by categories and are recognized for:

- a) lawsuits;
- b) guarantees to customers;
- c) dismantling of tangible assets and other similar actions related thereto;
- d) restructuring;
- e) employee benefits;
- f) other provisions

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

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.

Other provisions

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

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

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

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

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

The Company is not involved in any independent pension scheme, therefore it does not have any obligations in this regard. The Company is not involved in any post-employment benefit scheme. The Company does not have any obligation to provide subsequent services to former or present employees. At present, the Company does not grant employee benefits in the form of profit sharing.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

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.

Earnings per share

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

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

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

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

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

Reporting by operating segments

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles, policies and methods (continued)

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

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

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

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

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4. TANGIBLE ASSETS

Cost	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
At 31 December 2017	143,844,428	121,183,618	30,730,779	3,031,131	1,615,064	300.405.019
Inflows, of which:	-	211,389	1,040,229	209,317	994,434	2.455.369
from revaluation	-	-	-	-	-	-
Outflows, of which:	-	-	(41,894)	(294)	(1,401,425)	(1.443.613)
from the determination of the net amount for revaluation	-	-	-	-	-	-
At 30 June 2018	143,844,428	121,395,007	31,729,114	3,240,154	1,208,073	301.416.775
Accumulated amortization	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
At 31 December 2017	303,047	4,076,035	8,647,437	950,822	-	13.977.341
Amortization for the year	12,917	1,943,111	2,448,838	259,155	-	4.664.021
Accumulated depreciation for outflows, of which:	-	-	(10,124)	(292)	-	(10.416)
from the determination of the net amount for revaluation	-	-	-	-	-	-
At 30 June 2018	315,964	6,019,146	11,086,151	1,209,685	-	18.630.946

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4. TANGIBLE ASSETS (continued)

Adjustments for impairment	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
At 31 December 2017	-	-	-	-	-	-
Adjustments for impairment recognized in profit or loss	-	-	-	-	-	-
Reversals of adjustments for impairment recognized in profit or loss	-	-	-	-	-	-
At 30 June 2018	-	-	-	-	-	-
Net carrying amount						
At 31 December 2017	143,541,381	117,107,583	22,083,342	2,080,309	1,615,064	286,427,678
At 30 June 2018	143,528,464	115,375,861	20,642,963	2,030,469	1,208,073	282,785,829

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4. TANGIBLE ASSETS (continued)

	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
Cost						
At 31 December 2016	143,639,728	120,885,080	27,709,621	2,470,267	1,441,161	296,145,856
Inflows, of which:	-	50,546	4,575,413	389,734	1,207,460	6,223,153
from revaluation	-	-	-	-	-	-
Outflows, of which:	-	-	(2,376,488)	(6,488)	(443,057)	(2,826,033)
from the determination of the net amount for revaluation	-	-	-	-	-	-
Inflows, of which:	-	-	-	-	-	-
At 30 June 2017	143,639,728	120,935,626	29,908,546	2,853,513	2,205,564	299,542,976
Accumulated amortization						
At 31 December 2016	277,213	-	3,188,448	135,789	-	3,601,449
Amortization for the year	12,917	2,038,623	3,314,782	494,655	-	5,860,977
Accumulated depreciation for outflows, of which:	-	-	(457,645)	(141,759)	-	(599,404)
from the determination of the net amount for revaluation	-	-	-	-	-	-
At 30 June 2017	290,130	2,038,623	6,045,585	135,789	-	8,863,023

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4. TANGIBLE ASSETS (continued)

	Land and land improvement	Buildings	Plant and machinery	Other tangible assets	Tangible assets in progress	Total
Adjustments for impairment						
At 31 December 2016	-	-	-	-	-	-
Adjustments for impairment recognized in profit or loss	-	-	-	-	-	-
Reversals of adjustments for impairment recognized in profit or loss	-	-	-	-	-	-
At 30 June 2017	-	-	-	-	-	-
Net carrying amount						
At 31 December 2016	143,362,515	120,885,080	24,521,173	2,334,478	1,441,161	292,544,407
At 30 June 2017	143,349,598	118,897,002	23,862,960	2,364,828	2,205,564	290,679,952

As of 30 June 2018, tangible assets decreased by 1.27% as compared to 31 December 2017, mainly due to impairment.

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

Tangible assets outputs represent retirements.

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4. TANGIBLE ASSETS (continued)

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

Name of the asset	Net carrying amount 30 June 2018	Net carrying amount 31 December 2017
- Land com. Domnesti, Ilfov County = 67,713.56 m2	12,299,569	12,299,569
- Land com. Moara Vlaşiei, Ilfov County = 70,469 m2	7,680,362	7,680,362
- Land str. Mitropolit Filaret 35-37 sect. 4 Bucharest = 1,595 m2	3,621,527	3,621,527
- Land str. Veseliei nr. 19 sect. 5 Bucharest =16,095 m2	11,694,241	11,694,241
- Buildings (cadastral parcels no.1,2,3,9,10,13,15,16,18,19,21,23,24,25,26,234078 Calea Rahovei 266-268 District 5 Bucharest	71,062,061	39,493,685
- Land Calea Rahovei nr. 242 =2,157 m2	4,113,782	-
- Land Domnesti = 20,000 m2	4,541,100	-

Tangible assets include assets acquired through governmental grants and used in the activity licensed at one of the micro hydroelectric plants located in Brodina commune, Suceava County. The outstanding value of the investment as of 30 June 2018 is 13,451,298 lei, of which 4,818,563 lei represents the granted amount. The outstanding value of the investment as of 31 December 2017 was 13,652,431 lei, of which 4,899,962 lei represents the granted amount.

Fair value of tangible assets

The tangible assets of the Company, 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 adjustments for impairment.

The fair value of the Company 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 individual 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 2018 and 31 December 2017:

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4. TANGIBLE ASSETS (continued)

Fair value of tangible assets (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Fair value as of 30 June 2018
Lands and land improvements	-	-	143,528,464	143,528,464
Buildings	-	-	115,375,861	115,375,861
				Fair value as of 31 December 2017
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Lands and land improvements	-	-	143,541,381	143,541,381
Buildings	-	-	117,107,583	117,107,583

Both during 2018 and 2017 there was no transfer between the fair value levels.

5 REAL ESTATE INVESTMENT

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

According to IAS 40, this category of property is recognized as real estate investments. The Company selected the fair value model for the presentation of real estate investments in its financial statements.

At 30 June 2018, the real estate investments are structured as follows:

	<u>30 June 2018</u>	<u>Year 2017</u>
Initial balance	4,555,912	4,631,885
Inflows of which:	-	219,918
from fair value measurement	-	219,918
Outflows of which:	-	(295,891)
from fair value measurement	-	(295,891)
Final balance	4,555,912	4,555,912

The Company also holds other spaces rented in other buildings used jointly with other businesses. These are not classified as real estate investments because the share of the rental income in the total revenues is insignificant. Moreover, in most cases these spaces cannot be administered separately.

We mention that there are no restrictions on the level of realisation of real estate investments or the transfer of revenue and proceeds from disposal.

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 increase, mainly as a result of license renewals.

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

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6 INTANGIBLE ASSETS (continued)

The situation of intangible assets at 30 June 2018 was:

	Concessions patents licenses	Other intangible assets	Intangible assets in progress	Total
Cost				
At 31 December 2017	705,934	2,616,091	212,122	3,534,147
Inflows	53,204	-	-	53,204
Outflows	-	-	(53,204)	(53,204)
Transfers	-	-	-	-
At 30 June 2018	759,138	2,616,091	158,918	3,534,147
Accumulated amortization				
At 31 December 2017	438,555	1,848,097	-	2,286,652
Amortization for the year	83,579	190,983	-	274,562
Accumulated amortization for outflows	-	-	-	-
At 30 June 2018	522,134	2,039,080	-	2,561,214
Net carrying amount				
At 31 December 2017	267,379	767,994	212,122	1,247,495
At 30 June 2018	237,004	577,011	158,918	972,933
Cost				
At 31 December 2016	599,070	2,319,238	465,988	3,384,296
Inflows	77,447	280,298	-	357,745
Outflows	-	-	(275,832)	(275,832)
Transfers	-	-	-	-
At 30 June 2017	676,517	2,599,536	190,156	3,466,209
Accumulated amortization				
At 31 December 2016	271,214	1,477,667	-	1,748,881
Amortization for the year	86,727	174,741	-	261,468
Accumulated amortization for outflows	-	-	-	-
At 30 June 2017	357,941	1,652,408	-	2,010,349
Net carrying amount				
At 31 December 2016	327,856	841,571	465,988	1,635,414
At 30 June 2017	318,576	947,128	190,156	1,455,860

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7 INVESTMENTS IN RELATED ENTITIES

On 30 June 2018, the investments held in related entities, amounting 3,967,606 lei, are presented at cost.

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

The investments of the Company in subsidiaries remained unchanged in the reporting period, at 30 June 2018 being:

Name of subsidiary	No. of securities	Ownership and voting right percentage (%)	Value
Electromagnetica Goldstar SRL	2,650	100%	3,126,198
Electromagnetica Prestserv SRL	295	98.333%	29,500
Electromagnetica Fire SRL	799	99.875%	79,900
Procetel SA	42,483	96.548%	732,008
TOTAL			3,967,606

These companies were included in the consolidated financial statements.

8 OTHER NON-CURRENT ASSETS

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

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

	30 June 2018	31 December 2017
Performance guarantees granted to customers	1,079,756	635,927
Non-current trade receivables staggered	20,630,942	18,983,576
Other non-current assets	199,589	183,061
Total	21,910,287	19,802,564

Based on Ordinance no. 895/16 June 2017, the deferred green certificates were highlighted off-balance sheet and the Company will recognize incomes as these certificates are sold.

The staggered non-current receivables in net amount of 20,630,942 lei at 30 June 2018 were updated to the current value, while the effect of the time value of money was of 1,157,444 lei. The current share is recognized in trade receivables (Note 10).

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9 INVENTORIES

	30 June 2018	31 December 2017
Raw materials	7,644,311	6,881,623
Consumables	2,155,235	1,477,930
Finished goods	5,315,937	5,516,695
Work in progress	1,657,547	2,418,229
Other inventories	1,807,123	1,510,743
Adjustments for the impairment of inventories	<u>(1,253,218)</u>	<u>(1,041,252)</u>
Total	<u>17,326,935</u>	<u>16,763,968</u>

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 movement of adjustments for the impairment of inventories is as follows:

	January-June 2018	Year 2017
Balance at the beginning of the period	<u>1,041,252</u>	<u>1,216,227</u>
Adjustment for impairment recorded	211,966	786,383
Write-downs of adjustment for impairment	<u>-</u>	<u>(961,358)</u>
Balance at the end of the period	<u>1,253,218</u>	<u>1,041,252</u>

The adjustments carried during the reporting period refer to non-moving or slow moving production supplies and materials.

The company did not pledge inventory items to secure liabilities.

10 TRADE RECEIVABLES

Receivables are recorded at nominal value and are accounted for in the cost accounting for each natural or legal person. 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 2018	31 December 2017
Internal trade receivables	36,533,205	38,643,217
External trade receivables	12,836,275	5,523,930
Estimated trade receivables	1,144,955	935,470
Internal trade receivables adjustment at present value	<u>(381,124)</u>	<u>(590,408)</u>
Adjustments for the impairment of trade receivables	<u>(4,046,382)</u>	<u>(4,094,466)</u>
Net trade receivables	<u>46,086,929</u>	<u>40,417,743</u>

*The internal trade receivables also include the performance guarantees with a maturity of less than one year, granted to customers. At 30 June 2018, these are in amount of 43,437 lei (31 December 2017: 1,112,796 lei).

The 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 1,538,568 lei, of which 381,124 lei for less than

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one year period, and 1,157,444 lei for more than one year period. The more than one year share is recognized in Other non-current assets (Note 8).

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10 TRADE RECEIVABLES (continued)

The balance of the receivables to be collected from customers at 30 June 2018 was 248,055 lei (31 December 2017: 708,392 lei) and represents promissory notes issued by customers to the Company according to the contracts concluded.

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

	<u>June 2018</u>	<u>Year 2017</u>
Balance at the beginning of the period	4,094,466	1,604,777
Adjustment for impairment recorded	-	2,580,794
Write-downs of adjustments for impairment	(48,084)	(91,105)
Balance at the end of the period	4,046,382	4,094,466

Doubtful customers or those in litigation represent, at 30 June 2018, 4,046,382 lei (at 31 December 2017 – 4,094,466 lei).

The recorded depreciations in value refer to the amounts 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.

In 2018, the period for the recovery of claims increased to 125 days as compared to the same period of 2017, when it was 90 days, due to the increased volume of supplier credit sales.

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

	<u>Gross amount 30 June 2018</u>	<u>Provision 30 June 2018</u>	<u>Gross amount 31 December 2017</u>	<u>Provision 31 December 2017</u>
Due for payment	40,278,103	-	35,043,739	-
1 – 30 days past due	3,056,832	-	4,040,358	-
31 – 90 days past due	1,663,268	-	534,355	-
90 – 180 days past due	540,047	-	363,601	-
180 – 365 days past due	454,344	-	185,378	-
Over 365 days past due	4,140,717	(4,046,382)	4,344,778	(4,094,466)
TOTAL	50,133,311	(4,046,382)	44,512,209	(4,094,466)

11. OTHER CURRENT ASSETS

	<u>30 June 2018</u>	<u>31 December 2017</u>
Debtors	49,360	31,440
Accrued expenses	2,448,650	2,114,182
Suppliers debtors	70,597	24,697
Other assets	129,264	259,636
Total	2,697,871	2,429,955

The accrued expenses of 2,448,650 lei mainly consist of rent paid in advance, insurance premiums for the civil liability of directors and various subscriptions.

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11. OTHER CURRENT ASSETS (continued)

Other assets also highlight the VAT under settlement, in amount of 147,821 lei (at 31 December 2017: 259,636 lei).

12 CASH AND CASH EQUIVALENTS

	<u>30 June 2018</u>	<u>31 December 2017</u>
Petty cash	18,705	10,555
Cash at bank in foreign currencies	10,096,986	11,017,212
Cash at bank in ron	12,209,612	5,332,759
Cash equivalents	5,871	1,532
Total	<u>22,331,174</u>	<u>16,362,058</u>

Restricted cash

	<u>30 June 2018</u>	<u>31 December 2017</u>
Restricted cash	12,556,548	2,531,723
Total	<u>12,556,548</u>	<u>2,531,723</u>

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

13 SHARE CAPITAL

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

The structure of the shareholders that own over 10% of the share capital at 30 June 2018 is, according to the Central Depository Register:

SHAREHOLDER	<u>30 June 2018</u>		<u>31 December 2017</u>	
	NO. OF SHARES	%	NO. OF SHARES	%
PAS Association	200,302,763	29.6289	200,302,763	29.6289
SIF Oltenia SA	171,717,594	25.4006	171,717,594	25.4006
Natural persons	204,258,079	30.2140	194,589,958	28.7838
Legal persons	99,760,268	14.7566	109,428,389	16.1867
Total	<u>676,038,704</u>	<u>100</u>	<u>676,038,704</u>	<u>100</u>

None of the shareholders holds control in relation with the Company.

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

14 RESERVES

The legal reserves

	<u>January– June 2018</u>	<u>2017</u>
Balance at beginning of the period	<u>34,400,651</u>	<u>34,400,651</u>
Increase	649,027	-
Decrease	(15,370,332)	-
Balance at end of the period*	<u>19,679,346</u>	<u>34,400,651</u>

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14 RESERVES (continued)

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 Company can only make additional allocations from the net profit. The legal reserve is deductible within the limit of 5% of the accounting profit before the income tax is determined.

*From the legal reserve recognized at 30 June 2018, the amount of 8,649,877 lei represents the balance of the inflation adjustment calculated according to IAS 29 (31 December 2017: 24,020,209 lei).

Revaluation reserves are 102,134,513 lei at 30 June 2018. As compared to the balance at the beginning of the period, they decreased due to the transfer of the revaluation reserve into the carried forward result, following amortization.

	January- June 2018	2017
Balance at beginning of the period	103,319,691	106,439,479
Increase	-	-
Decrease	(1,185,178)	(3,119,788)
Balance at end of the period	102,134,513	103,319,691

At 30 June 2018, the Company also recorded **other reserves** in amount of 60,723,463 lei, of which its own financing sources represent 98%.

	January- June 2018	2017
Balance at beginning of the period	61,372,490	57,044,643
Increase	-	4,327,847
Decrease	(649,027)	-
Balance at end of the period	60,723,463	61,372,490

15 PROFIT/LOSS CARRIED FORWARD

At 30 June 2018, the carried forward result derived from the transfer of revaluation reserves due to amortized or decommissioned assets was 1,185,178 lei.

The loss of the parent company for 2017 was covered in 2018 according to the Decision of the General Meeting of Shareholders of 25.04.2018, from the inflation adjustment of the legal reserve, calculated in compliance with IAS 29 at the time of transition to IFRS.

16 INVESTMENT SUBSIDIES

	Total	< 1 year	> 1 year
Investment subsidies at 30 June 2018	4,818,563	163,219	4,655,344
	Total	< 1 year	> 1 year
Investment subsidies at 31 December 2017	4,899,962	163,219	4,736,743

In 2012, the Company received an investment subsidy of 5,997,788 lei for the modernization of the micro hydroelectric plant of Brodina 2 (Suceava), which is transferred to incomes concomitantly with the

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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.

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17 PROVISIONS

Name	Balance 01.01.2018	Inflows (setup)	Outflows (cancellation)	Balance 31.12.2018
Provisions for Fines from Competition Council	10,024,824	-	(10,024,824)	-
Provisions for performance guarantees to customers	1,342,950	-	(171,958)	1,170,992
Provisions for liabilities and charges	31,440	-	-	31,440
Provision for Employee Benefits	2,345,058	323,790	(683,729)	1,985,119
	13,744,27			
TOTAL	2	323,790	(10,880,511)	3,187,551

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

The provision for employee benefits refers to the value of annual leaves left untaken in the previous year and other provisions, according to the employment contracts; this provision was written-down as these annual leaves were taken during the reporting period.

18 TRADE PAYABLES AND OTHER LIABILITIES

TRADE PAYABLES

	30 June 2018	31 December 2017
Internal trade payables	6,893,820	7,381,492
External trade payables	4,001,064	3,042,745
Estimated trade payables	11,755,601	11,365,149
Total trade payables	22,650,485	21,789,386

Other current liabilities

	30 June 2018	31 December 2017
Advances received from customers	2,356,814	1,900,266
Salaries and social security contributions	4,217,640	2,785,154
Income in advance	-	100,778
Other liabilities	20,593,144	12,743,720
Total trade receivables and other liabilities	49,818,083	39,319,304

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 68 days in 2018 as compared to the same period of 2017, when it was 59 days.

The Company does not have significant outstanding trade payables.

The Company 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 2018.

At 30 June 2018, the Company has no long term loans.

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At 30 June 2018, the Company has several credit agreements approved. These are presented in Note 28 to these financial statements. At 30 June 2018, respectively at 31 December 2017 there were no debts relating to payable credits.

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18 TRADE PAYABLES AND OTHER LIABILITIES (continued)

Other liabilities include guarantees received from tenants, payable VAT, other taxes and charges and the fines of 19,046,133 lei imposed by the Competition Council for the electricity supply business and the sale of electricity meters and related equipments in the period 2010-2012. For this amount, the Company requested ANAF a suspension pursuant to Article 235 of the Tax Procedure Code.

The guarantees received at 30 June 2018 amount to 2,459,651 lei and will be settled according to the contractual clauses.

	<u>Total</u>	<u>< 1 year</u>	<u>>1 year</u>
Guarantees received	2,459,651	1,100,781	1,358,870

19 REVENUE

	<u>January- June 2018</u>	<u>January- June 2017</u>
Revenue	<u>151,697,371</u>	<u>97,684,978</u>
- Revenue from sold production	44,738,585	40,090,549
- Rental income	7,581,563	7,084,968
- Revenue from sale of goods	99,377,223	50,509,461
Investment income	<u>36,923</u>	<u>429,525</u>
- Interest income	36,923	4,778
- Dividend income	-	424,830
- Net income from real estate investments measured at fair value	-	(92,664)
- Other net investment income	-	-
Finished goods inventory variation and production in progress	10,454,887	5,103,659
Work performed and capitalized by the entity	277,016	1,149,972
Other (expenses)/(revenues)	<u>2,476,320</u>	<u>3,167,656</u>
-Revenues from subsidies	2,005,936	2,345,372
-Net provisions	531,897	454,593
-Net foreign exchange difference	(47,930)	22,467
-Other revenues	(13,583)	345,224
Net revenue	<u>164,942,517</u>	<u>107,535,790</u>

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20 EXPENSES

	January- June 2018	January- June 2017
Expenses related to materials	114,158,762	76,935,676
- Raw materials and consumables	29,999,451	23,786,998
- Goods purchased for resale	82,513,566	51,987,134
- Electricity, heating and water	1,645,745	1,161,544
Expenses related to employee	15,162,956	17,134,640
- Salaries	14,825,646	14,106,056
- Other personnel expenses	337,310	3,028,584
Other expenses	17,225,355	13,672,828
- Postage	100,609	119,565
- Maintenance and repair	136,601	211,965
- Rental	674,680	655,696
- Advertisement and entertainment	242,747	151,985
- Insurance	279,293	283,833
- Transport and travel	705,994	594,427
- Subcontracted works	4,113,388	2,367,301
- Other taxes and charges	768,326	684,393
- Consultants and collaborators	756,550	547,438
- Green certificates	5,817,607	3,933,281
- Other operating expenses	3,629,560	4,122,944
Expenses related to depreciation and impairment	4,938,582	7,904,945
- Depreciation	4,938,582	5,627,790
- Net impairment	-	2,277,155
Total expenses	151,485,655	115,648,089

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

21 FINANCIAL EXPENSES

	January- June 2018	January- June 2017
- Interest expense	16,933	26,117
- Bank charges	459,398	300,968
Total financial expenses	476,331	327,085

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22 INCOME TAX

Income tax recognized in profit or loss:

	30 June 2018	30 June 2017
Current income tax		
Current income tax expense	2,227,096	-
Deferred income tax		
Deferred income tax expense / (revenue)	(27,891)	317,262
	2,199,205	317,262

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

Indicator	30 June 2018	30 June 2017
Net accounting profit / (Loss)	10.781.326	(8.756.647)
Deductions	3.813.318	(3.587.582)
Non-taxable income	10.913.604	(1.237.922)
Non-deductible expenses	17.864.943	8.690.600
Taxable profit	13.919.347	(4.891.551)
Tax loss from previous years	-	-
Current income tax	2.227.096	-
Income tax reduction	-	-
Income tax due at end of period	552.368	-

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

At 30 June 2018, the total current income tax liability is 505,830 lei.

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	(17,566,303)	93,777	189,628	(17,282,898)
Effect of time-value of money (receivables)	280,688	(34,517)	-	246,171
Receivable value adjustment	655,115	(7,694)	-	647,421
Inventory value adjustment	166,600	33,915	-	200,515
Employee benefits	375,209	(57,590)	-	317,619
TOTAL	(16,088,691)	27,891	189,628	(15,871,172)

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.

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23 AVERAGE NUMBER OF EMPLOYEES

Evolution of the average number of employees:

	30 June 2018	31 December 2017
Management	42	45
Administrative	205	236
Production	247	296
Total	494	577

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

	30 June 2018	31 December 2017
Higher education	31%	33%
Secondary education	33%	34%
Technical education	4%	5%
Vocational and qualification	32%	28%
Average number of employees	494	577

The expenses incurred for salaries and related taxes in 2017 and 2018 are:

	January- June 2018	January- June 2017
Expenses related to salaries	14,825,646	14,106,056
Other staff costs	337,310	3,028,584
Total	15,162,956	17,134,640

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

24 TRANSACTIONS WITH RELATED PARTIES

	January- June 2018	January- June 2017
Sale of goods and services to subsidiaries		
Electromagnetica Goldstar	28,089	35,048
Electromagnetica Fire	4,232	8,549
Electromagnetica Prestserv	4,695	11,257
Procetel	20,860	31,487
Total	62,876	86,341

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24 TRANSACTIONS WITH RELATED PARTIES (continued)

	January- June 2018	January- June 2017
Purchase of goods and services from subsidiaries		
Electromagnetica Goldstar	123,211	143,037
Electromagnetica Fire	478,745	439,155
Electromagnetica Prestserv	403,938	456,369
Procetel	517,593	571,212
Total	1,523,479	1,609,773
	January- June 2018	January- June 2017
Trade and other liabilities toward subsidiaries		
Electromagnetica Goldstar	20,560	20,682
Electromagnetica Fire	134,743	68,769
Electromagnetica Prestserv	78,873	74,137
Procetel	-	-
Total	234,176	163,588

The remuneration of the members of the Board of Directors in the year 2018 was 126,588 lei.

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

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

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

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

Procetel SA is a joint stock company with registered office in Calea Rahovei 266-268, Bucharest, District 5, registration number with the Trade Register J40/10437/1991, Tax ID 406212, tel.: 031.700.2614, fax: 031.700.2616; its main object of activity is other research and experimental development on natural sciences and engineering (NACE code 7219). Within its relationship with Electromagnetica, it carries out space rental service activities.

Electromagnetica Goldstar SRL is a limited liability company with registered office in Bucharest, Calea Rahovei no. 266-268, District 5, registration number with the Trade Register Office attached to Bucharest Tribunal J40/12829/1991, Tax ID 400570; its main object of activity is the manufacture of communication equipment (NACE code 2630). Within its relationship with Electromagnetica, it carries out space rental service activities.

Electromagnetica Prestserv SRL is a limited liability company with registered office in Bucharest, 266-268 Calea Rahovei Street, District 5, building 1, 2nd floor, axes A-B, pillars 1-2, registered with the Trade Register Office attached to Bucharest Tribunal under no. J40/1528/2003, Tax ID 15182750. Within its relationship with Electromagnetica, it provides cleaning services (NACE code 4311).

Electromagnetica Fire SRL is a limited liability company with registered office in Bucharest, 266-268 Calea Rahovei Street, District 5, building 2, ground floor, axes C-D, pillars 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, interior fittings, electrical works and cleaning services.

Electromagnetica provides rental services for its related companies Procetel, Electromagnetica Prestserv and Electromagnetica Fire.

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25 EARNINGS PER SHARE

Basic earnings per share

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

	<u>January- June 2018</u>	<u>January- June 2017</u>
Net profit / (Net loss) attributable to the shareholders of the Company	10,781,326	(8,756,647)
Average weighted number of ordinary shares	676,038,704	676,038,704
Earnings per share	0.0159	(-0.0130)

Diluted earnings per share

To calculate the diluted earnings per share, the company adjusts the profit attributable to the ordinary shareholders of the parent and the weighted average of outstanding shares by the effects of all the potentially diluting ordinary shares. For the years 2017 and 2018, the Company records the basic earnings per share as equal to the diluted earnings per share as there are no certain securities that could be converted into ordinary shares in the future.

26 INFORMATION BY OPERATING SEGMENTS

The Company 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 the operations.

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

First semester 2018	Unlicensed activity	% Total Company	Licensed activity	% Total Company	Total Company
Net profit	3,291,851	30.53	7,489,475	69.47	10,781,326
Total assets	320,353,271	79.56	82,282,202	20.44	402,635,473
Total liabilities	48,955,307	64.79	26,604,763	35.21	75,560,070
Customer revenue	51,282,721	33.81	100,414,650	66.19	151,697,371
Interest income	40,999	100	-	n/a	40,999
Impairment and depreciation	3,772,793	76.39	1,165,790	23.61	4,938,582

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26 INFORMATION BY OPERATING SEGMENTS (continued)

First semester 2017	Unlicensed activity	% Total Company	Licensed activity	% Total Company	Total Company
Net profit	(1,535,848)	100	(7,220,799)	n/a	(8,756,647)
Total assets	302,335,769	80.33	74,040,959	19.67	376,376,728
Total liabilities	37,378,935	69.35	16,516,284	30.65	53,895,219
Customer revenue	5,460,485	9.42	52,498,007	90.58	57,958,492
Interest income	4,788	100	-	n/a	4,788
Impairment and depreciation	4,482,449	79.65	1,145,342	20.35	5,627,791

Production activity

Production had an overall increase of 1.06 %. Among the groups of products with larger share, there was an increase for electricity meters and the telemanagement systems (281%) and LED lighting units (8.5%), while a decline was recorded for: low-voltage switchgear (2%), plastics injection (11 %), molding (60%) and energy production of micro hydro electric plants (10%), activity which is much influenced by weather, respectively by rainfall.

In relation to outlet markets, the sales on the domestic market remained almost the same, while exports increased by 5.4%, due to the larger number of orders for LED lighting units.

The electricity supply activity was carried out on a more stable market than in the similar period of 2017, implementing risk mitigation policies through the purchase of electricity in favorable periods, EFET-type contracts signed and executed with reputed partners in the OTC market, thus avoiding purchase from more volatile markets, such as PZU. The Company continued the restructuring of its portfolio of customers in parallel with attempts to regain older customers with acknowledged worthiness. The turnover of the electricity supply activity was almost double (98% increase).

The rental and utility supply services recorded a slight increase in revenue as compared to the end of 2017, resulted from the greater occupancy and the average euro/leu exchange rate which had a favorable evolution. The revenues from the rental activity will be under pressure due to the downsizing of some tenants or their migration to spaces that are cheaper or have additional facilities. The real estate market is in a continuous competition. The high level of deliveries to the office market will possibly exceed the demand of offices in the area and so lead to a lower occupancy level, mainly in the older buildings. These will have to invest in redevelopment or to lower the occupancy costs so as to remain in the competition with the new generation of buildings, most of which are green, with state-of-the-art facilities and excellent connections to public transport, especially underground. At the end of the reporting period, the average occupancy level in the building located at 266-268 "Calea Rahovei" Street was 99%, while in the spaces located in Varteju (Magurele) it was 100%.

27 RISK MANAGEMENT

The Company is exposed to the following risks:

Equity risk

Equity risk aims to ensure the capacity of the Company to carry out its activities in good conditions, through the optimization of the capital structure (equity and debts). The analysis of the capital structure 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 Company has proposed an adequate dividend policy to its shareholders, which would ensure its own financing sources. The absence of financing sources can limit the development of the Company on the market segments where sales are supported by commercial facilities offers.

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

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27 RISK MANAGEMENT (continued)

The debt ratio at 30 June 2014 was:

	<u>30 June 2018</u>	<u>31 December 2017</u>
Total loans	-	-
Suppliers and other liabilities	<u>49,818,083</u>	<u>39,319,304</u>
Less: Cash and cash equivalents	<u>(22,331,174)</u>	<u>(16,362,058)</u>
Net Liabilities/(Assets)	<u>27,486,909</u>	<u>22,957,246</u>
Equity	<u>327,075,406</u>	<u>316,104,451</u>
TOTAL CAPITAL EMPLOYED	<u>354,562,315</u>	<u>339,061,697</u>
Debt ratio	<u>7.75%</u>	<u>6.77%</u>

Credit risk

Credit risk is the possibility that contracting parties breach their contractual obligations resulting in financial loss for the Company. When possible and allowed by market practices, the company requests guarantees. Trade receivables derive from a wide range of customers operating in various fields of activity and different geographical areas. To counteract this risk factor, the Company applied restrictive policies to the delivery of products to doubtful customers. Insurance policies were contracted for foreign market receivables. Due to the increase of insolvency cases in the economy, there is a concrete risk related to the recovery of the equivalent value of products and/or services supplied prior to the declaration of insolvency; therefore, the Company is paying more attention to the creditworthiness and financial discipline of its customers. Note that several electricity suppliers were declared bankrupt or filed for bankruptcy in the first quarter of the year. Therefore, we can see a deterioration of the business environment and a direct manifestation of the credit risk.

	<u>2018</u>	<u>2017</u>
Trade receivables	67,997,216	60,037,248
Other receivables	2,697,871	2,429,955
Financial assets valued at fair value from profit or loss	-	-
Cash and cash equivalents	<u>22,331,174</u>	<u>16,362,058</u>
	<u>93,026,261</u>	<u>78,829,261</u>

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 Company's investment policy according to which investments are exclusively covered by own sources of funding, therefore credit lines are only used for short periods.

The Company is exposed to **foreign exchange risk** because the supply of materials mainly comes from import and the share of the export increased. To limit the effect of foreign exchange, the payment schedule was correlated with the proceeds in foreign currency, the company usually recording cash-flow

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surplus. The Company monitors and manages on a permanent basis its exposure to exchange rate differences

The foreign currencies most frequently used in transactions are EUR 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.

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27 RISK MANAGEMENT (continued)

At 30 June 2018, their situation is as follows:

	<u>Assets</u>	<u>Deferred</u>	<u>Net exposure</u>
EUR	3,721,850	664,910	3,056,940
USD	106,591	225,277	(118,686)

At 31 December 2017, their situation is as follows:

	<u>Assets</u>	<u>Deferred</u>	<u>Net exposure</u>
EUR	3,307,260	536,196	2,771,064
USD	291,111	139,851	151,260

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 +/- 1.377.357 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 Company is present, the energy market has the highest price risk, considering the volatility of prices on the Day ahead market and the Balancing market, 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 spot market can increase the price risk on this market. In order to control the price risk on the energy market, the Company took measures to reduce its exposure, through a resizing of its customer portfolio, and the balancing services were outsourced.

The risk of interest rate change is kept under control through the adoption of a policy of investments exclusively from own financing sources, which means that credit lines are only used for the working capital.

The Company 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 Company 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 Company took action so as to control prices at the suppliers and it improved the related technological processes.

Liquidity and cash flow risk

The Company cash flow department prepares forecasts on the liquidity reserve and maintains the appropriate level of credit facilities in order to be able to prudently manage the liquidity and cash flow risks. To this effect, the Company extended the mortgage agreements in favor of the banks with which the company 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 seldom accessed 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 before.

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27 RISK MANAGEMENT (continued)

Trade receivables and payables by maturity:

	30 June 2018	past due	0 - 1 year	1 - 2 years	2 - 5 years	> 5 years
Trade receivables	67,997,216	5,813,826	34,817,083	14,695,315	12,670,992	-
Trade payables	22,650,485	1,227,956	21,331,197	73,850	17,482	-
	31 December 2017	past due	0 - 1 year	1 - 2 years	2 - 5 years	> 5 years
Trade receivables	60,037,248	5,568,508	34,321,273	7,807,866	12,339,601	-
Trade payables	21,789,386	658,053	21,064,175	67,158	-	-

Political and regulatory risk

The activity of the Company on regulated markets, such as the energy production and supply market, exposes it to the legislative risk. For example, the energy market was influenced by the fact that the large consumers were exempted from the obligation to pay a considerable share of green certificates and from the tariff changes, which stimulated the energy exports.

The national implementation of the European directives on energy efficiency can stimulate the sale of LED lighting solutions, while their delayed or inadequate regulation on energy efficiency may distort the market concerned.

Calamity risk

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

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

30 June 2018	Carrying value	Fair value	Level
Financial assets			
Trade receivables	67,997,216	67,997,216	Level 1
Cash and cash equivalents	22,331,174	22,331,174	Level 1
Other current assets	2,697,871	2,697,871	Level 1
	93,026,261	93,026,261	
30 June 2018	Carrying value	Fair value	Level
Non-current financial liabilities			
Trade payables and other debts	1,358,870	1,358,870	Level 1
	1,358,870	1,358,870	
Current financial liabilities			
Trade payables	49,818,083	49,818,083	Level 1
	49,818,083	49,818,083	

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27 RISK MANAGEMENT (continued)

31 December 2017	<u>Carrying value</u>	<u>Fair value</u>	<u>Level</u>
Financial assets			
Trade receivables	60,037,248	60,037,248	Level 1
Cash and cash equivalents	16,362,058	16,362,058	Level 1
Other current assets	2,429,955	2,429,955	Level 1
	<u>78,829,261</u>	<u>78,829,261</u>	
31 December 2017			
	<u>Carrying value</u>	<u>Fair value</u>	<u>Level</u>
Non-current financial liabilities			
Trade payables and other debts	1,304,836	1,304,836	Level 1
	<u>1,304,836</u>	<u>1,304,836</u>	
Current financial liabilities			
Trade payables and other debts	39,319,304	39,319,304	Level 1
	<u>39,319,304</u>	<u>39,319,304</u>	

General framework for risk management

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

The activity is governed by the following principles::

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

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

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

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

28 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At 30 June 2018, the Company had the following commitments for bank loans and guarantee agreements/loan contracts concluded with the financing banks (BCR, BRD, Libra Internet Banking, OTP BANK ROMANIA):

- revocable credit line, BCR of 9,000,000 lei, uncommitted at 30 June 2018, of which:
- within the limit of 50% of the credit as overdraft, respectively (4,500,000 lei), uncommitted at 30 June 2018.

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28 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

- within the limit of 50% of the credit for the issue of guarantee letters, respectively (4,500,000 lei), uncommitted at 30 June 2018.
 - 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 26,048,958 lei committed at 30 June 2018;
 - 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 the beneficiary Lukoil.
 - guarantee agreement with cash collateral in amount of 250,000 EUR, Letter issued in favor of the beneficiary AXPO TRADING AG.
 - guarantee agreement with cash collateral in amount of 1,201,637 RON, Letter issued in favor of the beneficiary TRGOVANJE SLOVENIA .
 - guarantee agreement with cash collateral in amount of 10,024,825 RON, Letter issued in favor of the beneficiary ANAF.
 - credit facility with BCR (non-cash) of 8,000,000 lei, of which 4,871,126 lei non-cash committed at 30 June 2018.
 - Guarantees: 1st ranking mortgage on property (land, building and access roads)
 - guarantee agreement authorized overdraft of 90,000 lei.
 - Guarantees: collateral cash deposit of 15,000 lei
 - Guarantees: collateral cash deposit of 75,000 lei
 - credit line with Libra Internet Bank, in amount of 5,000,000 lei committed at 30 June 2018, 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 9,200,412 lei committed at 30 June 2018.
 - 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.
 - Credit agreement (multiple use ceiling)
 - revocable credit line, OTP BANK ROMANIA, in amount of 5,000,000 lei, uncommitted at 30 June 2018.
 - non-cash credit line, OTP BANK ROMANIA, in amount of 10,800,000 lei, uncommitted at 30 June 2018.
 - Guarantees: pledge agreement for current and future receivables;
 - Guarantees: pledge agreement for universality of current and future receivables;
 - Guarantees: pledge agreement for accounts opened with OTP BANK ROMANIA
 - mortgage on property (built up area – yards and buildings) located at 242 Calea Rahovei Street
 - mortgage on property – land and buildings on the following plots: 25,23,24,9,2,18,19,3,26,21,1
- The commitments from customers and tenants as letters of guarantee at 30 June 2018 amount to 23,769,432 according to contract terms.

Litigation

The disputes in which the Company is involved do not refer to such amounts that could affect its financial stability. Considering the value of the claims of the applicant Hidroelectrica, the only exception is the case no. 13259/3/2015 where the requests of the applicant were rejected by the first instance court and then by the Bucharest Court of Appeal.